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Visa and MasterCard Cut Canada Fees Amid State Pressure

Save By Steve Dickson, Doug Alexander and Theophilos Argitis Nov 4, 2014 11:12 AM ET 2 Comments

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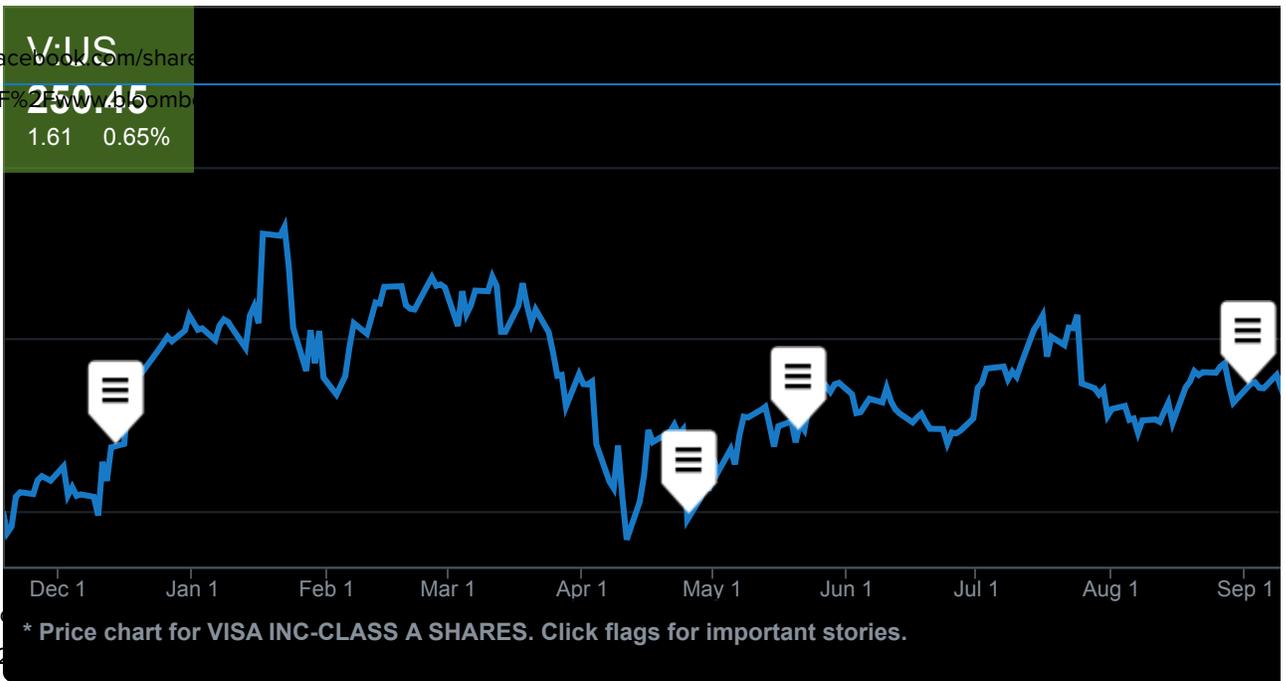
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Visa Inc. (V) (<http://www.bloomberg.com/quote/V:US>) and **MasterCard Inc. (MA)** (<http://www.bloomberg.com/quote/MA:US>) lowered credit-card transaction fees for Canadian merchants by about 10 percent in a move the federal government said should lower consumer prices and may trim revenue for the nation's banks.

The two payment networks submitted proposals to reduce their average effective interchange rate in Canada to 1.5 percent on consumer credit cards, the finance department said in a **statement** (<http://www.fin.gc.ca/n14/14-157-eng.asp>) posted on its website today. The rate will stand for five years and take effect no later than April, it said.

Prime Minister **Stephen Harper** (<http://topics.bloomberg.com/stephen-harper/>)'s conservative government, which has been rolling out consumer-focused policies ahead of next year's federal election, pledged in its 2014 budget to take additional measures to lower card fees

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for retailers. Merchant groups including the Retail Council of Canada have been the biggest advocates for government action on the fees, which the government claims are among the highest in the world.

“These commitments represent a meaningful long-term reduction in costs for merchants that should ultimately result in lower prices for consumers,” Finance Minister Joe Oliver said in the **statement** (<http://www.fin.gc.ca/n14/14-157-eng.asp>). “As a result of the voluntary proposals, there is no need for the government to regulate the interchange rates set by the credit card networks.”



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([In a separate statement, Visa said it’s entering the agreement on the expectation there will be a level playing field in the industry.](http://www.linkedin.com/shareArticle?mini=true&url=http%3A%2F%2Fwww.bloomberg.com%2Fnews%2F2014-</p></div>
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Bank Profits

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“If Visa or our clients are disadvantaged as a result of entering into this undertaking, Visa reserves the right at any time to terminate or amend it,” the **Foster City** (<http://topics.bloomberg.com/foster-city/>), California-based company said today in a statement.

The purchase volume of 22 card issuers in Canada reached \$334 billion last year, according to The Nilson Report, a payments industry publication. With interchange fees ranging from 1 percent to 2.65 percent, according to Visa and MasterCard disclosures, annual revenue from those fees for financial firms surpasses C\$5 billion, based on the Nilson Report purchase volume data.

Canada’s six-biggest banks earn about C\$2.85 billion (\$2.5 billion) in profit from interchange fees a year, according to an Oct. 8 note by BMO Capital Markets analysts Sohrab Movahedi and Tim Casey. A 10 percent reduction in interchange would reduce that profit for the group by about C\$226 million, to C\$2.62 billion.

‘Well Positioned’

Canada (<http://topics.bloomberg.com/canada/>)’s card issuers, which include banks and credit unions, receive the interchange fee that’s passed along by the card companies. While the payment networks set the fees, they don’t profit directly from interchange. The lenders use the revenue from those fees to cover credit-card losses and pay for loyalty programs and other benefits.

“It will take some time for us to assess the impact of the changes introduced,” Andrew Block, spokesman for **Royal Bank of Canada (/quote/RY:CN)** said by e-mail. “We believe RBC is well positioned to make any adjustments required to continue to support our clients.”

Spokespeople for **Toronto-Dominion Bank (TD)** (<http://www.bloomberg.com/quote/TD:CN>), Bank of Montreal, Canadian Imperial Bank of Commerce and Bank of **Nova Scotia** (<http://topics.bloomberg.com/nova-scotia/>) did not

immediately respond to requests for comment or declined to comment. Maura Drew-Lytle, spokeswoman for the Canadian Bankers Association, did not immediately return requests for comment.

Banks have said efforts to cut fees may force them to reduce card-holder benefits or eliminate cards. The issue has been raised in the past three months in earnings calls and investor presentations by companies including Royal Bank, Bank of Montreal, CIBC and loyalty program owner **Aimia Inc. (AIM)** (<http://www.bloomberg.com/quote/AIM:CN>)

Among Highest

“We believe potential changes to interchange fees represent a modest but transitory headwind to the group, with a greater impact to TD and CIBC, and the least impact to Scotia and Royal,” **John Aiken** (<http://topics.bloomberg.com/john-aiken/>), an analyst at Barclays Plc said in a note today.

The issue has been under study by lawmakers and Canada’s competition bureau for years. The competition bureau sued Visa and MasterCard in 2010 over rules that don’t allow merchants to encourage shoppers to use cheaper payment options and prevent them from applying a surcharge on higher-cost cards. A tribunal dismissed the case last year and said a “proper solution” to the watchdog’s concerns is a regulatory framework.

Canada has among the highest card acceptance fees in the world, almost twice as high as **Europe** (<http://topics.bloomberg.com/europe/>), the bureau said.

Visa and MasterCard are engaged in a long-running battle with merchants around the world over swipe fees. The biggest networks in July lost their bid to dismiss more than 30 lawsuits by retailers including Target Corp. and Macy’s Inc., which are seeking potentially billions of dollars in damages related to fees for processing transactions. Merchants have sued networks for allegedly conspiring with banks to fix swipe fees, which are charged to businesses when consumers pay with credit or debit cards.

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Se Bul · 13 days ago

Still way way too high. Those buddies are making billions year after year. While merchants are struggling to stay alive. Cutting down transaction fees could help merchants, probably their employees would get paid better. Instead of having three companies that are desperate not knowing what do with their tons of earnings (so they start a share buyback programm!), wealth allocation would be better balanced.

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Pablo5 · 13 days ago

We'll never see our govt standing up to corporations for the benefit of consumers because the corporations own the govt. and all the theives in the govt. They own all three branches.

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