

The Durbin Amendment: Who's Pocketing The Savings — Your Customer Or The Processor?

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BY SEAN KRAMER,
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The Federal Reserve made final rulings on the controversial Durbin Amendment back in June of 2011 that capped processing fees on debit and credit card transactions. As a result, merchants have received the biggest reduction in credit card processing charges in the history of the electronic payment industry. What many ISVs don’t realize is that their processing providers’ rate structure determines who pockets the savings: your customer (the merchant) or the processor themselves.

What Is Durbin?

Under the new federal regulation stemming from the Durbin Amendment, starting on October 1, 2011, banks that issue credit cards are prohibited from charging or receiving an electronic debit (both signature and PIN Debit) interchange fee greater than the sum of: (i) 22 cents (21 cents without fraud adjustment) (ii) 5 basis points (.0005%) times the amount of the transaction¹.

Impact For Merchants

For merchants on pass-through pricing models, in which the interchange rate for each transaction is passed through plus a separate mark-up, the Durbin Amendment promises significant savings. In fact, merchants could see their credit card processing charges cut in half since debit cards

comprise nearly 50 to 70 percent off all card transactions. However, many merchants will never see these savings as processors have used Durbin as an opportunity to give themselves a raise. Because many processors force customers into Tiered Pricing structures that lack transparency and allow them to hide profits, merchants for whom Durbin Savings was intended, will never see these funds.



SEAN KRAMER



Sean Kramer is the president and CEO of Element Payment Services. Kramer has years of experience in the payment processing industry.

The Bottom Line

It’s important for ISVs to understand their integrated payment provider’s merchant rate structure and how it will affect Durbin savings for customers.

As an organization, Element has offered True Pricing™ (interchange plus pricing) to our ISV customers since inception, resulting in cost savings across the portfolio. We recently analyzed a multi-location spa merchant to evaluate actual cost savings from the Durbin Amendment. The results were a significant drop in effective rate (2.11% to 1.77%) resulting in \$180,000 of cost savings in a single month. Annualized, the savings would equate to \$2 million. “We’re pleased that our customers are benefiting from Durbin as intended. I’d encourage other ISVs to clearly understand a processors rate structure when evaluating potential partnership. It’s only fair to the customer,” says John Harms, CEO, Harms Software. ●

¹ The Durbin Amendment’s interchange fee restrictions do not apply to any issuer with assets of less than \$10 billion, taking into account its worldwide affiliates. Certain other debit cards are exempt from Durbin. They include reloadable prepaid cards, and government administered payment programs (subject to certain exceptions that become applicable in one year). The other components of the law regarding network routing and exclusivity have a technical impact on transaction routing.