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By Dr. Ling Ling Ang, Dr. Alan Grant & Peter Traber
NERA Economic Consulting

Edited by Justin Stewart-Teitelbaum & Angela Landry

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The Credit Card Competition Act of 2023 ("CCCA") is proposed legislation that would "amend the Electronic Fund Transfer Act to require the Board of Governors of the Federal Reserve system to prescribe regulations relating to network competition in credit card transactions, and for other purposes."[2] In a recent paper, "Potential Economic Impacts of the Credit Card Competition Act of 2023,"[3] we considered the potential economic impacts of the CCCA, drawing on two-sided markets economic literature and the effects of previous U.S. payment cards regulatory policy. The paper analyzes the proposed legislation and seeks to ground the policy conversation with economic tools and reasoning.

Key Provisions in the CCCA

We focus on the following three provisions in the CCCA as currently proposed:

- **No Exclusive Network:** This provision prohibits networks and covered card issuers — card issuers who together with their affiliates have assets of more than $100 billion — from restricting transactions to a single network or to only affiliated networks. Further, at least one of the networks over which a transaction may be routed may not be one of the largest two networks by share of credit cards issued.
- **No Routing Restrictions:** This provision limits restrictions on merchants or acquirers who make transaction routing decisions: covered card issuers or networks cannot impose penalties or disadvantages for directing transactions or minimum transaction volumes. Further, the "No Routing Restrictions" provision also imposes limitations on requiring the exclusive use of security technology that cannot be used by all networks and prohibits inhibiting other networks from using a security technology.
- **Applicability:** The "Applicability" provision states that the "No Exclusive Network" and "No Routing Restrictions" provisions do not apply to credit cards issued in a three-party payment system model. Thus, the "No Exclusive Network" and "No Routing Restrictions" apply only to a subset of credit cards more broadly.

Potential Impacts on Credit Cards

Our analysis of the potential economic impacts of the CCCA considers that the "No Exclusive Network" and "No Routing Restrictions" provisions of CCCA only cover some issuers (four-party system issuers with more than $100 billion in consolidated assets) but not others (three-party system issuers and four-party system issuers with $100 billion or less in consolidated assets) and some networks (four-party networks are covered, three-party networks are not). Based on the requirements of the CCCA and the variation in its coverage, our analysis suggests the likely economic impacts of the CCCA include:

- **Interchange Fees:** Interchange fees are likely to decrease for covered issuers but could also increase or stay the same if new networks compete vigorously for issuers or are not able to find an optimal price below

[1] Dr. Ling Ling Ang (lingling.ang@nera.com) is a Managing Director; Dr. Alan Grant (alan.grant@nera.com) is a Director, and Mr. Peter Traber (peter.traber@nera.com) is a Consultant at NERA Economic Consulting. This research was funded by JPMorgan Chase Bank, National Association; NERA Economic Consulting was commissioned by JPMorgan Chase Bank, National Association to perform independent analysis of the potential economic impacts of the Credit Card Competition Act of 2023.

[2] *Credit Card Competition Act of 2023*, S. 1838, 118th Cong. §1 (2023).

[3] Ling Ling Ang, Alan Grant, and Peter Traber. "Potential Economic Impacts of the Credit Card Competition Act of 2023," *NERA Economic Consulting*, 15 February 2024, available at https://www.nera.com/content/dam/nera/publications/2024/NERA_Potential_Economic_Impacts_of_CCCA_0224.pdf.

incumbent networks' prices.[4] Note a reduction in interchange fees is not a reduction in the revenue of card networks, but rather a transfer in prices from the merchant side (acquirers and merchants) to the consumer side (issuers and consumers). In other words, the bill mandates that decision power on what network to use to process a transaction for covered credit cards falls on the merchant side of the market due to "No Routing Restrictions."

- **Network Quality:** As network quality associated with higher merchant costs (e.g., more chargebacks) may not be directly observed, for at least some merchants (or the acquirers to whom merchants delegate network decisions), networks would likely be predominantly competing on price to incentivize merchants to join the network, i.e., interchange and network fees. For merchants (or delegated acquirers) who focus mainly on price, networks would have less incentive to provide high-quality service or make further costly investments in card network security.
- **Account Terms and Credit Card Rewards:** Decreases in interchange fee issuer revenue could be offset by increases in revenue through other channels that are not directly associated with transactions such as interest, annual fees, and penalty fees. With regard to consumer benefits directly related to transactions, decreases in credit card rewards are likely to be associated with a decrease in interchange fee revenue. The extent of the decrease in rewards it likely to vary among consumers. Credit card rewards from three-party issuers and non-covered four-party issuers are less likely to be adversely affected by the CCCA.
- **Consumer Choice of Methods of Payment:** Reducing rewards points on a credit card would directly increase the price of transacting for a credit card consumer, which could lead them to consider alternative payment methods. Some consumers may turn to other credit cards (e.g., credit cards issued by three-party system issuers), debit, or cash. These payment methods all lead to different costs and benefits for consumers and merchants.
- **Covered Issuer Consumer Mix:** To the extent that consumers respond to changes due to the CCCA by switching methods of payment, covered issuers may face an adverse selection issue as consumers may substitute to alternatives with higher rewards from non-covered issuers or three-party networks. A potential increase in the riskiness of consumers (i.e., higher percentage of revolvers, who may eventually default on credit card debt, compared to transactors) faced by covered issuers could lead to actual and effective interest rates to be higher at covered issuers.
- **Four-Party and Three-Party Networks:** The CCCA could induce more consumers to effectively single-home on three-party system credit cards.

Conclusion

If passed, the CCCA would change the structure of the credit card industry in the United States, as the proposed legislation requires final routing decisions to be delegated to acquirers and merchants. Two-sided markets, such as credit cards, involve a balancing act by platforms. Implementation of the CCCA shifts the network routing choice from the consumer to the merchant, which, under certain conditions, will likely result in lower interchange fees and thus rewards. In this case, the CCCA's policy implications should be taken in the context of the payment ecosystem, including but not limited to debit cards, cash, and bank transfers.

Credit cards are not only a transaction vehicle, but a method by which consumers have access to typically unsecured, revolving loans. The CCCA and its impacts may also lead to unintended consequences on the credit function of credit cards. These impacts could take the form of price effects (e.g., higher interest rates,

[4] Further, there is the possibility of a network having a two-tiered interchange fee structures where exempt issuers have a different interchange fee schedule.

or fewer promotional APRs) or changes in the availability of credit. Due to the structure of the CCCA, some consumers may substitute to three-party networks, which are not covered by the CCCA, but this option may not be available to all consumers.

For interested readers, we point to our detailed analysis titled, "Potential Impacts of the Credit Card Competition Act of 2023," which contains the context of the economic theory, empirical studies and impacts of past policy decisions that affected electronic payments.