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Visa, Mastercard's plan to freeze swipe fees may deal another blow to Canadian merchants

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Voice

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Visa Inc. and MasterCard Inc. are planning a worldwide freeze of swipe fees paid by retailers in response to the coronavirus crisis, but three people familiar with the matter say those moves could delay some promised rate reductions for hard-hit merchants and small businesses in Canada.

The U.S.-based credit card companies are suspending scheduled changes to the fees – known as interchange rates – that they charge to process credit-card transactions as part of a broader postponement of planned updates to their global payments networks, said Dan Kelly, president and chief executive officer of the Canadian Federation of Independent Business, and another person.

Visa and Mastercard are delaying the updates, in part, because introducing systems changes could prove risky and compromise network security during the current crisis, especially as staff work remotely, they added.

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The Globe and Mail is not identifying two of the sources because they were not authorized to speak publicly about the matter.

In many countries, the worldwide freeze will postpone interchange rate increases for a slew of businesses, providing some much-needed relief on costs.

In Canada, however, the suspension of scheduled changes would defer planned rate reductions until later this year, dealing another blow to merchants and small businesses already reeling from the pandemic, Mr. Kelly said.

“Businesses have been waiting a long time for additional rate reductions from Visa and MasterCard, and it’s a real shame that there’s a risk of that being delayed,” Mr. Kelly said in an interview on Friday.

“It appears that Visa is working to find a workaround to try to ensure that the rate reductions come in the change period. There’s not a lot of commerce happening right now, but any reduction at times like these would be welcome news for smaller merchants,” he added.

Visa and MasterCard, which have informed banks, the government and some retailers of the freeze on fee changes, struck an agreement in 2018 with the Canadian government to reduce their average effective interchange rates to 1.4 per cent from 1.5 per cent on domestic consumer credit-card transactions, starting this spring. Visa’s rates are scheduled to fall in April, while MasterCard’s reductions were due May 1, Mr. Kelly and one of the sources said.

Both payment networks are still expected to fulfill their obligation to reduce rates this year, and are looking at tweaking their strategies, they said.

For its part, Visa is looking at potential fixes to ensure merchants get the full benefit of the planned reductions, they added. One such possibility is rebates, one of the sources said.

MasterCard is considering whether to make larger rate reductions at a later date, Mr. Kelly added.

Visa said in a statement on Friday that it is implementing and considering a number of ways to support its clients. “This includes delaying an upcoming global technology release until July, 2020,” it said. “We remain committed to the interchange undertaking [in Canada] and will comply with our commitment.”

Mastercard said in a statement that it is working to keep commerce flowing in the current environment. “To help our customers and partners manage through this unprecedented event, we are pausing updates to some systems while delivering the same level of security and service they receive every day,” the statement said. “This is one way we can help them focus on their core systems operations and resiliency efforts.”

“We’re still waiting anxiously for the rate reductions to go into effect in April,” said Gary Sands, a senior vice-president of the Canadian Federation of Independent Grocers, which advocated for the reduction in fees. “If we pick up that there’s any deferral of that, we’re going to hit the roof.” He could not confirm whether any changes to the planned fee reduction are coming. “... If anything, they should be doing more,” he added, citing the pressure on small businesses.

Governments have limited non-essential activities to slow the spread of the virus, forcing many brick-and-mortar retail stores to close and rely on e-commerce sales that use credit cards much more often.

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“There’s a lot more e-commerce happening, so credit card networks are doing relatively well in their share of the payments mix, compared to Interac or cash,” said Karl Littler, senior vice-president of public affairs with the Retail Council of Canada. If the reduction in fees were delayed, he added, “[retailers] would be concerned, especially because the credit share of the payments market is going up.”

Under the terms of the 2018 agreement with Ottawa, the new average effective interchange rate of 1.4 per cent, once in effect, would to remain for five years. (American Express struck a separate deal with Ottawa at that time because it negotiates its processing fee directly with merchants.)

Retailers and small businesses had complained for years to Ottawa about costly swipe fees that fund lucrative rewards programs for credit cards.