

Independent grocers ask feds to rein in e-commerce credit card fees as online orders explode

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A group of independent grocers is pushing the federal government to rein in credit-card companies charging high fees for online purchases, as web orders for groceries surge during the pandemic.

The Canadian Federation of Independent Grocers (CFG) on Monday sent a letter asking Ottawa to revisit its 2018 agreement with Visa and Mastercard that put a cap on the fees — known as interchange fees — that they can charge retailers.

Despite that agreement, retailers say they are still getting hit with big bills for online transactions, which have emerged as an important channel for retailers in the lockdown.

"This shift in consumer purchasing has been entirely at the expense of small business and again, solely to the benefit of Visa, Mastercard and the banks," CFG senior vice-president Gary Sands said in the letter to Finance Minister Chrystia Freeland and Small Business Minister Mary Ng.

"Canadians would hope that the banks and card companies would have stepped up and voluntarily reduced their fees. But that did not happen and calls to do so have been met with a deafening silence."

But the credit-card companies pushed back on Tuesday. Mastercard said it has already notified retailers that it plans to reduce e-commerce fees, while Visa Canada said it is holding up its end of the bargain with Ottawa.

The agreement, which the credit-card companies opted into voluntarily, went into effect last year and limits the interchange fees on consumer card purchases to an average rate of 1.4 per cent.

Visa and Mastercard can still charge retailers different rates depending on the type of transaction — one fee for online purchases, another for in-store purchases — as long as, taken together, those fees average out to 1.4 per cent.

The agreement pushed rates down by 10 basis points, which the government billed as a major win for small businesses that don't have the same negotiating power as big retail chains.

The move was expected to save small- and mid-sized businesses a total of \$250 million per year over the five years of the agreement, based on credit-card sales of roughly \$250 billion per year, the government said at the time.

But small-business advocates said the deal has backfired somewhat during the pandemic, because the fee structure is based on pre-pandemic buying patterns.

Dan Kelly, chief executive of the Canadian Federation of Independent Business (CFIB), said it appears the fee structure includes lower fees for in-person purchases and higher fees for e-commerce in an attempt to average out at the 1.4-per-cent target. The drastic change in buying habits, however, will have thrown those models out of whack.

"I believe that both Visa and MasterCard, especially MasterCard, though, will not meet their 1.4-per-cent obligation because their rate structures were basically locked and loaded pre-pandemic," Kelly said. "There's no blame on Visa and MasterCard for their rate structure changes. I think they both intended to try to hit the 1.4 level, but COVID has meant that will be near impossible."

Both CFIB and CFGI said interchange fees on e-commerce have hovered around 1.8 per cent, depending on the retailer.

"We don't have data yet, but everybody's expecting that they will miss their 1.4 target," Kelly said. "It's going to be up to the government to figure out how they're going to enforce that rule."

But Visa on Tuesday said it is keeping its promise to bring down interchange fees to an average rate of 1.4 per cent for domestic consumer credit-card transactions, both in-person and online.

"Moreover, Visa Canada's interchange rates for e-commerce transactions are lower than they have ever been," Visa said in an emailed statement, adding that on top of the agreed reduction to 1.4 per cent, there were also "deeper reductions for rates applicable to small business categories," including restaurants, grocers, dry cleaners and variety stores.

"Visa Canada recognizes the challenges that many industries are currently facing," it said. "We stand by Canada's small businesses and have fulfilled our commitment to lower interchange rates."

Mastercard said it notified customers last week that it will reduce its rates for e-commerce transactions as part of its agreement with the federal government.

"We are committed to meeting our voluntary agreement with the Government of Canada, just as we have done in the past," spokesperson Sandra Benjamin said in an email. "In fact, we notified customers last week that we are reducing our rates on e-commerce transactions as part of that commitment."

Benjamin did not immediately respond to a follow-up question on Tuesday afternoon about how much Mastercard is lowering its rate.

Sands, at CFGI, said Mastercard had shown a "remarkable demonstration of being tone deaf" for its previous fee increases on some online orders.

"If, for example, you are an independent grocer or restaurant owner — the latter entirely dependent on online orders and curbside pickup — and

operating on margins of about 1.5 per cent, it is obvious that this new digital math is not sustainable,” Sands said in the letter to Freeland and Ng.

“Even the most dispassionate observer would agree that Ottawa needs to recalibrate the approach to the payments industry if the industry will not do so itself.”

A spokesperson for Ng’s office said in an email that the government “will continue to work closely with small businesses to ensure they have the support they need as Canada weathers the pandemic.”