

Delays to Ottawa's pledge to lower credit card transaction fees has small businesses worried

CHRIS HANNAY/INDEPENDENT BUSINESS REPORTER

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Juliann Barry, owner of Reveiller Afriq, with the Square credit card terminal at her store in Brampton, Ont., on May 19. CHRISTOPHER KATSAROV/THE GLOBE AND MAIL

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Independent retailers have an array of overhead costs, but there is one that Juliann Barry calls the silent killer: credit-card transaction fees.

Ms. Barry opened the first location of her clothing store Réveiller Afriq in Brampton, Ont., in November. She said she soon became concerned that the amount of money being deposited in her accounts did not match her sales records. So she called up her point-of-sale provider, who confirmed that 2.9 per cent of every sale she made was deducted and split between banks, credit-card companies and payment processors.

“It’s quite a lot being deducted,” Ms. Barry said, adding of the financial companies: “Even now, I’m like, these people must be stealing.”

Small businesses get minor tax break in 2022 federal budget, but no action on credit-card fees

For small businesses, the money deducted every day to process customers’ payments is a small but significant share of their revenue. The federal government has repeatedly promised in recent elections and budgets to force banks and credit-card companies to lower their fees, but business groups say they are concerned that the government’s resolve has softened in recent months.

Concern about the issue has heightened during the pandemic as more customers abandon cash in favour of paying with a card. According to Payments Canada, there were 4.5 billion transactions made with personal credit cards in 2016 for a total value of \$408-billion. By 2021, that had risen to six billion transactions worth a total of \$509-billion.



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A small percentage of each of those transactions is directed to financial institutions and credit-card companies for what is known as an interchange fee. The fee varies depending on the type of transaction (online is typically more expensive than in-person), the industry, the merchant and the type of credit card. Cards with more generous loyalty programs cost merchants more to process because the merchants are, in effect, subsidizing the reward programs.

The federal government has pressed credit-card companies in the past to lower their rates. In 2015, the companies agreed to keep rates to an average of 1.5 per cent, which was lowered to 1.4

per cent in 2020. The rates are voluntary and not regulated. Large companies, such as Walmart, are able to negotiate lower rates – for some, even under 1 per cent. If the average rate is 1.4 per cent, then small businesses are left paying a lot more.

The Liberals first included a promise on interchange fees in the 2019 election, and again in the 2021 election. In the 2021 budget, the government noted that Canada had among the highest interchange fees in the world and said it would outline “detailed next steps” in that fall’s economic statement, including legislation to regulate the fees. The government held consultations with industry groups that summer.

In December, when consultations ended, the government again said it would introduce legislation. But the economic update tabled that month did not mention the promise. In the 2022 budget in April, the government said only that it would do more consultations.

When asked by The Globe and Mail about the status of the promises, Finance Minister Chrystia Freeland’s office reiterated the wording of the most recent budget.

“The government is committed to lowering the cost of credit-card fees in a way that benefits small businesses and protects existing reward points for consumers,” Ms. Freeland’s spokesperson, Adrienne Vaupshas, said in an e-mail.

Groups that advocate for small businesses say they are worried the government has changed its mind about regulating interchange fees.

“The question the small-business community is left asking is, are we looking at a broken promise?” said Gary Sands of the Canadian Federation of Independent Grocers.

Dan Kelly, president of the Canadian Federation of Independent Business, said the government appears to have prioritized higher taxes on banks – as announced in the 2022 budget – over regulating interchange fees. Both cost banks millions of dollars in lost revenue, he said, but the government is the beneficiary of the taxes, whereas small businesses benefit from the lower fees.

“I worry now that it seems like Ottawa’s focus on the banks is to drive more revenue to the federal government than to provide some cost relief to businesses,” Mr. Kelly said.

Spokespeople for Visa and Mastercard said the companies will continue to consult with the government on next steps.

Financial institutions argue the fees are necessary to maintain payment networks and offer services, such as fraud protection.

“Banks in Canada provide value for merchants and consumers across the country through a secure, reliable, convenient, and cost-effective payment card network system,” said a statement from the Canadian Bankers Association.

The Canadian Credit Union Association suggested in a submission to the government that if merchants paid lower fees, customers themselves would have to pay more for their credit cards.

“In a growing digital economy, it would be to no one’s benefit if revenues from interchange were to fall below the cost of servicing a card user and issuers are forced to increase fees, reduce card benefits, or in a worst-case scenario, exit the business,” the CCUA submission said.

But for Karl Littler, senior vice-president of the Retail Council of Canada, the costs are in many cases also being felt by consumers as stores raise their prices to offset the fees.

“This is not just a small-business issue,” Mr. Littler said. “It is a consumer issue, to the tune of billions of dollars, year-in and year-out.”



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