

Everyone Loves Rewards. No One Likes Fees

By David Fang, J.D. Candidate 2021 | February 22, 2019

Everyone loves rewards. With every swipe, dip, and tap, consumers are converting everyday purchases into points for travel, fine dining, and entertainment. From the solid metal Chase Sapphire Reserve to the Rose Gold American Express, rewards credit cards promise consumers a desirable lifestyle.

However, no one likes fees. When a consumer makes a purchase at a store using their credit card, the store is charged an interchange fee, which is a percentage of the total sale. The store pays the bank that issued the credit card the interchange fee. These interchange fees are set by payment card networks like Visa and MasterCard and are [roughly 1-2.5%](#) of the total sale.

Recently, Visa and MasterCard have been preparing to increase [their cards' interchange fees](#). One reason could be the increasing risk of transactions due to data breaches like [Equifax](#), affecting 143 million Americans, and the [increase in fraud](#) in online transactions. Another reason for the fee increase could be [costly rewards programs](#) due to savvy consumers strategically maximizing rewards. For example, in Q2 2018, [rewards cost Chase \\$330 million](#) because credit card users were redeeming points faster than anticipated.

Merchants strongly dislike the power that card networks have in setting interchange fees. In 2005, merchants filed an antitrust lawsuit against Visa and MasterCard that settled for a [record \\$6.2 billion](#). In 2018, merchants sued American Express (*Ohio v. American Express*) for restricting merchants from encouraging customers to use other cards with lower fees. On the other hand, in Europe, [interchange fees are capped](#), and card networks fear similar regulation in the U.S.

Most recently, major retailers, such as Amazon, Target, and Home Depot, have been pushing to [stop accepting some rewards cards](#), pushing to end card network's "honor all cards" rule. At the same time, to counteract higher fees, like from increased rewards card usage, merchants have historically passed those costs to consumers by [raising prices](#). Therefore, although some reap the benefit of rewards cards, everyone, including those who use cash and debit or do not have access to credit, [bears the costs](#) of paying for those rewards.

At the end of the day, rewards cards are here to stay. Customers love rewards, the cards generate significant revenue for issuing banks, and they grow payment volume for card networks. However, nothing is free, and someone, whether it be merchants, customers, or banks, will have to pay for the rewards.

