

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

March 7, 2013

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Federal Reserve Board Publishes Report Containing Summary Information on Debit Card Transactions in 2011

On Tuesday, March 05, 2013, the Federal Reserve Board published a report containing summary information on the volume and value, interchange fee revenue, certain debit card issuer costs, and fraud losses related to debit card transactions in 2011. The report is the second in a series to be published every two years pursuant to section 920 of the Electronic Fund Transfer Act (EFTA).

The Board's Regulation II (Debit Card Interchange Fees and Routing), which implements this provision of the EFTA, provides that a debit card issuer subject to the interchange fee standard (a covered issuer) may not receive an interchange fee that exceeds 21 cents plus 5 basis points multiplied by the value of the transaction, plus a 1-cent fraud-prevention adjustment, if eligible. The regulation does not apply to debit card issuers with consolidated assets of less than \$10 billion, certain government-administered debit cards, and certain prepaid cards. The interchange fee standard became effective on October 1, 2011.

Covered issuers' costs of authorizing, clearing, and settling (ACS) debit card transactions, excluding fraud losses, varied greatly across respondents in 2011, with the median issuer having an average ACS cost of 11 cents and the issuer at the 75th percentile having an average ACS cost of 36 cents. Issuers with the highest debit card transaction volume generally had the lowest ACS costs per transaction as reflected in an overall average of 5 cents per transaction. Conversely, issuers with the smallest debit card programs generally had the highest ACS costs per transaction.

The Board estimated debit-card fraud losses to all parties (merchants, cardholders, and issuers) to be \$1.38 billion in 2011, with an average loss of approximately 8 basis points per debit card transaction, down slightly from 2009. The median covered issuer's average fraud loss per transaction was nearly 5 basis points, the same as in 2009. The median covered issuer had average fraud prevention and data security costs of slightly less than 1.5 cents per transaction.

The Board does not plan to propose revisions to the Regulation II interchange fee standard or the fraud-prevention adjustment based on these survey data. Sixty-seven percent of covered issuers had average ACS costs below 21 cents (the base component of the interchange fee standard) in 2011. This proportion is lower than the 80 percent of covered issuers with average ACS costs below 21 cents in 2009 due to the addition of first-time survey respondents, most of whom are foreign banking organizations or other covered issuers with very small debit card programs and high ACS costs per transaction. Issuers that responded to both the 2009 and 2011 data collections typically reported ACS costs per transaction that were lower in 2011 than in 2009. Covered issuers that had average ACS costs below 21 cents in 2011 processed well over 99 percent of all reported covered transactions, the same proportion as in 2009.

The median issuer fraud loss, which serves as the basis for the ad valorem portion of the interchange fee standard, is essentially unchanged from 2009 (5 basis points). Further, when rounded to the nearest cent, the median fraud-prevention and data security costs remained at 1 cent per transaction (the current fraud-prevention adjustment).

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2136

Attachment:

[2011 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions \(PDF\)](#)