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Businesses Will Pay Less When You Use Debit. Will Customers?

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In spite of vociferous lobbying from the banking industry, a Senate vote today will limit the amount of money a store must pay each time it accepts a debit card starting in July. The cap is significant: Right now, when customers use a debit card, the retailer pays 44 cents to the debit-card issuer on average; today's 54-45 vote essentially agrees to limit that fee. Industry analysts expect it will drop to roughly 12 cents on average.

This, consumer advocates say, is good for shoppers: Whether they pay with cash or plastic, retailers offset the fees with their sticker prices. By lowering the fee, consumers should experience some savings at the register, they say. "Merchants will be forced by competition to pass their savings [from the fees] along to their customers," says Ed Mierzwinski, consumer program director at the U.S. Public Interest Research Group. And retailers, who lobbied to limit the fees, have said they "absolutely plan to pass this savings along to their customers," says a spokesman at the National Retail Federation.

Most retailers haven't announced how, exactly, they plan to do this, and if customers are expecting lower prices, they could be disappointed. Currently, there are no rules or regulations about what the stores can do with the savings: Some might lower prices, says the NRF, while others might instead offer free gift wrapping, or use the savings to hire more sales people. The banking industry, which opposed the fee limits, says the saved fees could go straight to the company's bottom line.

The vote also makes debit cards a less lucrative business for banks. For example, Chase says it will lose $1.3 billion in annual revenue as a result of the limit, a spokesman for the bank says. In anticipation, banks have been cutting back on the incentives they offer for debit card use. This year, banks including Chase, SunTrust and Wells Fargo have either cut back or ended debit-card rewards programs.

Now, some banks are considering limiting the dollar amount consumers can swipe their debit cards for. Chase says it's considering a maximum of $50 or $100 per transaction. That's due in part to the lower swipe revenue and the unchanged costs the bank incurs when stolen debit cards are used for purchases, says a Chase spokesman.