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Thank you for the request to comment on Debit Card Interchange Fees and Routing. The Hawaii Food Industry Association (HFIA) is proud to share the unique perspective on behalf of the close to 200 food retailers, suppliers, distributors, manufacturers, and associate member businesses we represent. Our members report that the fees associated with accepting debit cards and the growing barriers to accessing competitive networks is increasing their operating costs and ultimately impacting the customers they serve every day. HFIA requests that the Federal Reserve Board of Governors take immediate action to enforce the routing competition provisions and reduce the regulated rate as required by law.

Our retail members win customer loyalty by offering outstanding service and quality while competing on price every day. Grocers do this by leveraging any savings realized to keep prices low for their customers. As an example, grocers rely on debit network routing options to help contain network costs. Networks competing for both issuing banks' and retailers' businesses benefit all stakeholders in the chain, most importantly the consumer. The grocery industry I represent is highly competitive and functioning on razor thin profit margins, averaging between 1% to 2% profit margin a year. Pennies really do count.

The events of the past year placed previously unimaginable strains on the grocery industry. Consumers pivoted from dining out and eating at schools to almost exclusively eating at home and seeking new ways to shop. The grocery industry quickly pivoted to respond to the immediate needs of the customer. First, the U.S. grocery industry invested over \$24 billion in personal protection equipment, enhanced cleaning and sanitization protocols and a myriad of other resources to help protect associates and customers.¹ Grocers did not limit the time and capital investment to in-store services and equipment. In a matter of weeks, U.S. consumers shifted a significant portion of their grocery shopping to online and as a result went from paying with various tender forms to paying almost exclusively with debit and credit cards. In response to this shift, grocers invested significant resources to accept, fulfill and deliver online grocery orders to meet the increased consumer demand. Even as states and localities reopen, consumers are continuing to turn to online channels to get their groceries. A recent consumer survey found that two-thirds of U.S. consumers now buy groceries online, and the average customer is allocating over 20% of their grocery spend online.²

This shift has greatly increased HFIA's members' cost of doing business, placing further strains on the ability to keep food prices low at such a critical time.

¹ Receipts From The Pandemic: Grocery Store Investments Amid COVID-19 and the Resulting Economics of an Essential Industry, May 2021, FMI-The Food Industry Association.

² U.S. Grocery Shopper Trends 2020, FMI - The Food Industry Association

The Federal Reserve Board of Governors can provide direct relief to grocers and other retailers in Hawaii by enforcing the routing provisions in the 2010 debit reform law and reducing the regulated debit interchange rate commensurate with cost reductions.

While my members are overwhelmingly utilizing competitive routing for in-store transactions, they do not enjoy the same access to competitive debit networks when the card is used online and in mobile transactions. The Board's proposed clarification will do that, and simply clarify that Visa and Mastercard must compete for retailer business, regardless of where the transaction happens. My members report that many banks already enable a second "PINless" network and can choose amongst service providers when the card is used online. Unfortunately, they report that some of the largest issuers with a vast majority of the debit business are not enabling a second network leaving the retailer with no options but to run across the more expensive global Visa or Mastercard network.

The intent and language of the law is clear, retailers must have access to competitive networks for debit transactions. No network or issuing bank can remove that choice. The Board is entrusted to enforce the law, particularly when the dominant networks are benefiting at the retailer's and other network's expense due to lack of enforcement. As the Board notes, currently only 6% of online debit transactions are being processed by single-message networks - Visa's and Mastercard's competitors - this distortion is clearly problematic and within the ability of the Board to rectify quickly. An open and competitive market benefits all stakeholders, most importantly the U.S. consumer.

Therefore, HFIA ardently supports the Board acting quickly to finalize the clarifications and enforce the debit routing provisions. Doing so will help ensure that my members will have access before we head into the busy holiday season to at least two unaffiliated debit networks regardless of how or where the transaction occurs and is authenticated.


In addition to enforcing the routing provision, HFIA requests the Board act quickly to reduce the regulated debit rate to reflect both the reduction in cost and fraud burden of the regulated issuing banks. U.S. merchants paid \$24.38 billion in debit interchange fees in 2019.³ With the significant shift to online and card usage, we can only expect that number to have increased dramatically in 2020. The Board set the current regulated rate for covered issuers at 21 cents plus five basis points with an additional penny for fraud adjustment when the law was initially implemented ten years ago. However, even with issuer costs having reduced by half, the rate has never been adjusted. The Board, in its biannual survey of issuer costs and fraud losses, reports that it costs covered issuers less than four cents to process a debit transaction. Additionally, the Board noted "the percentage of losses from fraudulent transactions reported by covered issuers absorbed by merchants steadily increased from 38.3 percent to 56.3 percent..."⁴ These two facts are clear indicators that the regulated rate should be reduced and done so immediately. The Federal Reserve Board of Governors should act immediately to reduce the regulated rate to bring it into alignment with the statutory requirement that is both reasonable and proportional to the issuer costs. It is simply improper and against the spirit and letter of the debit reform law for retailers to continue paying such high interchange rates that are neither reasonable nor proportional to the issuers actual costs.

³ 2019 Interchange Fee Revenue Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, May 2021.

⁴ 2019 Interchange Fee Revenue Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, May 2021.

Thank you again for the opportunity to share my members' perspective to the proposed clarifications. HFIA stands ready to work with the Board to ensure robust enforcement of the debit routing law and reducing the regulated debit rate.

Sincerely,

A handwritten signature in black ink that reads "Lauren Zirbel". The signature is written in a cursive, flowing style.

Lauren Zirbel, Executive Director, HFIA