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FAQ
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NATIONAL
RESTAURANT
ASSOCIATION

FAQ

CARD-NOT-PRESENT TRANSACTIONS

Merchants today, including restaurant operators, continue to pay significantly higher fees to accept card-not-present (CNP) transactions compared with transactions where the card is present (CP).

This issue is becoming increasingly problematic because CNP transaction volume has skyrocketed since the COVID-19 pandemic began and foodservice moved to more off-premises business than on-premises.

Simultaneously, consumer preference for using debit vs. credit cards is increasing.

As a result, CNP debit transactions are one of the restaurant industry's primary sources of payment but are also one of the costlier forms of transactions for operators.

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Q: WHAT ARE "CARD-NOT-PRESENT" TRANSACTIONS?

A: CNP transactions are purchases processed without the actual debit/credit card in hand to physically tap, insert, or swipe at the card terminal. CNP transactions occur in online ordering, over the phone, or through a mobile app during in-person pickups and remotely when ordering food delivery.

A recent PYMTS study found that 67% of the average restaurant's revenue now comes from remotely placed food orders.

Q: WHAT IS LEAST-COST ROUTING AND WHY IS IT IMPORTANT IN DEBIT TRANSACTIONS?

A: In 2010, the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act capped the interchange fee for debit card transactions and required debit-card issuers to enable at least two unaffiliated networks on each card for any debit card transaction.

That way, a single debit card transaction will have multiple competing networks available for merchants to route to. Card networks compete by offering varying pricing structures. For example, network A may charge 5 cents per transaction plus 1.1% of the total transaction value, while network B may charge 10 cents per transaction plus 0.9% of transaction value.

For a \$10 transaction, network A would be cheaper (\$0.16 vs. \$0.19), while for a \$100 transaction, network B would be cheaper (\$1.00 vs. \$1.15).

When restaurants utilize least-cost routing, they're able to choose the best debit network to process each PIN/PINless debit transaction, potentially saving restaurants a significant amount on transaction fees.

This ability to choose between two unaffiliated networks is least-cost routing, and it allows restaurants to better control their costs per transaction.

Q: IF LEAST-COST ROUTING IS REGULATED, WHAT EXACTLY IS THE ISSUE?

A: Despite regulation, issuing banks and card processing companies have not held up their end of the deal in the CNP environment, which means that merchants have been limited in their ability to favorably route their CNP debit transactions to the lowest fee option.

CARD-NOT-PRESENT TRANSACTIONS

The dramatic increase in CNP transactions throughout the pandemic is spotlighting this issue. The National Restaurant Association submitted comments to the Federal Reserve highlighting how restaurants and other merchants who rely on CNP debit transactions as a core part of their business continue to pay higher fees unnecessarily.

Q: DOES THE FINANCIAL INDUSTRY SELF-REGULATE IN THIS AREA OR DOES THE GOVERNMENT MANDATE THAT FINANCIAL INSTITUTIONS FOLLOW CERTAIN RULES?

A: Unfortunately, the financial sector does not self-regulate in this area. Instead, several agencies including the Federal Reserve set the regulatory frameworks for financial entities to follow to better protect merchants and consumers.

In addition to guaranteeing merchants the right to least-cost-route debit transactions, the Durbin Amendment also mandated that debit interchange or “swipe fees” must be “reasonable and proportional” to the actual cost of processing a transaction.

Even with these regulatory guardrails, however, the average cost to merchants to get a debit card payment processed has continued to rise, even though processors today are actually paying less to process those transactions than they did when the Durbin Amendment took effect.

This imbalance suggests the need for further government action to enforce least-cost routing options and set lower caps on swipe fees.

The Association advocates that CNP debit transaction regulation be enforced in the same way CP debit transactions are and that the Federal Reserve also consider further lowering caps on debit card swipe fees to the “reasonable and proportional” levels outlined in the Durbin Amendment.

Q: WHAT ACTIONS WILL HELP ALLEVIATE THE HIGHER FEE SITUATION FOR CNP DEBIT TRANSACTIONS?

A: Restaurant operators must be able to accept a wide range of payment options. The Association continues to engage with the Federal Reserve to demonstrate how the higher fees and routing limitations associated with CNP debit card transactions do not align with the legal provisions established under the Durbin Amendment over a decade ago.

The Association anticipates a final rule from the Federal Reserve that makes it clear to the financial sector that CNP debit transactions are—and have been since regulatory intervention in 2010—regulated in the same way as CP debit transactions.

This necessary clarification would finally empower restaurants with the ability to choose how to route debit payments for the remote dining services so heavily in use and enjoyed by customers today.

For more information, check out the handy [Transaction Basics](#) resource at Know Your Payments.