



## Credit Card Rewards May Be Unfair. Here's How You Can Change the System For The Better

### Description

Often, it's hard to say no—nay impossible: you open a credit card account, and the provider gives you a \$200 welcome bonus.

“Welcome to the family,” the credit card company seems to say, “glad you chose us.”

In the back of your mind, you wonder where that \$200 came from. How could credit card companies earn revenue if they give so freely to new users? On top of that, your card earns 5% back on groceries, which amounts to around \$50 of earnings per month. Considering that you're just one of the millions of credit card users, you have to wonder how credit card companies stay in business at all.

The hard truth: that \$200 doesn't come from the goodness of your credit card company's heart. It comes from *other Canadians*, often those who don't even use credit cards, or, worse, don't have the credit score to obtain one.

### The reality of credit card rewards

So where do credit card rewards come from? Well, one place is transaction fees.

Every business owner can testify that the transaction fees on credit cards are astronomical. And that's not an exaggeration. Canada has one of the highest interchange fees—the cost to merchants when consumers use credit cards—in the world. By one good estimate, the interchange fee in Canada is 1.78%. That means, whenever a consumer swipes their card, 1.78% of the purchase price goes to the credit card company. For perspective, the interchange fee in the U.S. is 1.73% and 0.21% in France.

To offset the interchange fee, Canadian merchants charge more for goods. After all, those fees can add up. If merchants don't compensate with higher prices, they could lose money.

The problem—those higher prices apply to not just Canadian credit cardholders, but *everyone*, including those who use cash and debit cards. Whenever a cash user buys a product, they're paying a

fee that offsets the charges of a card user. This can easily result in lower-income Canadians—who often don't have the credit scores to secure rewards cards—subsidizing the rewards programs of wealthier Canadian credit card users.

This isn't just limited to Canada. In the U.S., many senior economists have already called out the inequalities in the rewards programs of credit card companies. In fact, in a [report](#), titled "Who Gains and Who Loses from Credit Card Payments?" several senior economists found that on average "each cash-using household pays \$149 to card-using households and each card-using household receives \$1,133 from cash users every year."

To be fair, interchange fees aren't the only charges subsidizing rewards programs. Cardholders pay annual fees on credit cards with more benefits, and all cardholders pay interest on unpaid charges when they carry a balance.

But those fees don't justify the extra money non-card users pay whenever they use cash for a transaction. For Canadians who live paycheque-to-paycheque, who use cash because they don't have a credit card, these higher costs turn into a bizarre and unfair scenario in which those with less are funding rewards programs for those who have enough.

## So what can you do about it?

Perhaps the best way to bring more equality to the system is to lower the interchange fees merchants pay when consumers use credit cards.

Right now, there's a [growing movement in Canada](#) to reduce these fees. In fact, many small business owners and merchants are eagerly awaiting the amendments to the *Payment Card Networks Act*, which will hopefully lower interchange fees and bring more regulation to those who set them.

Another option is to donate your cash back or rewards to a charity. Admittedly, this isn't the most radical way to change the system. But it can certainly encourage a generous frame of mind, one that focuses less on accumulating for yourself and more on sharing "extra" money with neighbours who have less.

You don't even have to donate your cash back to a charity. Instead, you could choose to buy something for someone who's struggling with money. Imagine, for instance, that you're living paycheque-to-paycheque, struggling to buy groceries in a time when inflation is making food too expensive, and a friend (or stranger) offers to buy this week's groceries for you. At that point, it doesn't matter if they cover your groceries with a \$200 welcome bonus they got on a credit card.

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