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the gimlet eye

IS THIS THE YEAR OF THE STABLECOIN?

REMEMBER STABLECOINS? Some experts lately have been pointing to 2025 as a breakthrough year for this digital currency, which is generated by a blockchain but carries a value tied to a national currency, such as the dollar. That link allows users to deploy digital dollars without fearing the wild swings in value that Bitcoin and other cryptocurrencies are subject to.

The roster of stablecoins has grown to at least 195 since the first such token, BitUSD, emerged in 2014. That's the number of coins ranked by Coinmarketcap, an online reference on digital currencies. More are coming soon, experts have told us. "I've noticed a uptick in interest in the past year," Aaron McPherson, a payments consultant who follows cryptocurrency, told us. And major payments platforms are jumping into the game. The most recent example is the PYUSD token launched by PayPal Holdings Inc.

Even stodgy old financial institutions are starting to get into the game. "There's work being done by major banks on deposit tokens," McPherson said. "If you have money on deposit, you create a token and put it on the blockchain. It can be traded, mediated on the blockchain."

Crypto platforms like Circle Internet Group, meanwhile, are putting out digital guides to buying, managing, and selling this currency. Circle's entry, USDC, ranks second among stablecoins, with a market capitalization of $45.8 billion as of mid-January. The top coin, Tether, is way ahead at $137 billion.

And Ripple, an early exponent of this breed, was expected last month to issue a new coin, ripple USD, after months of legal wrangling with the Securities and Exchange Commission over a prior coin, XRP. "Ripple has been reinvigorated, they're well-positioned," noted McPherson.

Looming in the background is a new administration that many view as more open to cryptocurrency than the old one. "There's an expectation that [the Trump administration] will be much more friendly to crypto," said McPherson. "We can expect a more permissive regulatory environment."

But there may be clouds on the horizon. Competition from players like Circle and the increasing capital demands the market is likely to generate could put pressure on lesser coins. "We've got a profusion of stablecoins now, which means a shakeout at some point," warns McPherson.

And in the United States, where the national government has looked at the potential for a form of federally issued stablecoin called a US digital dollar (USDC), not all officials are enthusiastic about private-sector rivals. These coins "could pose significant risks to financial stability, monetary policy, and the U.S. payments system," a Fed official warned at a conference in 2023.

For now, though, stablecoins are on a roll.

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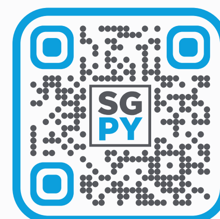

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LOOKING FOR TRENDS? LOOK AT AI, INTERCHANGE, AND OPEN FINANCE

The payments business in 2025 will be rife with open finance, instant payments, multi-rail payments, interchange questions, and the increasing use of artificial intelligence, observers suggest.

Meanwhile, the top three payments trends will be open finance, instant payments adoption, and point-of-sale innovations, says Capgemini Research Institute in its "Capgemini Financial Services Top Trends 2025" report.

Already a hot topic, open finance will emerge with a broader scope than open banking, which enables consumer portability of select financial-account information. That will open the door for easier access to many types of financial accounts and payment services, the report notes. Open finance expands this scope to include a "360-degree financial footprint" that includes accounts like insurance, investments, and retirement holdings, Capgemini says.

An enabler will be standards imposed by regulators, with Capgemini pointing out the Consumer Financial Protection Bureau's recent Section 1033 of the Consumer Financial Protection Act of 2010 requires banks to share customer data in a standardized format with authorized third parties.

Instant payments are available in many forms, including person-to-person payments, and are forecast to grow from 16% of global payment transaction volume to 22% in 2028, according to separate Capgemini research, "World Payments Report 2025."

Talbott: Expect AI to move beyond fraud detection this year.

The report also found that instant account-to-account payments could offset 15% to 25% of future card transaction volume growth, with debit and prepaid cards potentially most affected.

The impact could be transformational. "With instant payments favored over checks and debit cards, banks stand to benefit from lower transaction costs. Shifting small purchases to instant, low-cost account-to-account (A2A) payments, achieved through bypassing intermediaries (like card networks), may stimulate micropayment adoption among consumers," Capgemini says in its 2025 outlook.

In addition to largely commercial instant payments made with services from The Clearing House Payments Co. LLC's RTP network and FedNow from the Federal Reserve, other instant or near-instant payment services abound. Zelle from Early Warning Services LLC targets P2P payments and both Mastercard Inc. and Visa Inc. offer speedy payment services via Mastercard Send and Visa Direct. Recently, Visa announced plans to speed up Visa Direct trans-

actions to less than a minute, beginning for U.S. users in April.

Expect a big push for point-of-sale technology, both online and in store, in 2025, Capgemini says. Technologies like softPOS, which uses an app on a consumer-grade phone or tablet instead of a dedicated POS terminal, will find more favor among merchants for their low maintenance costs and "minimal upfront investment," the report says.

"Customer flexibility improves from more payment choices like digital wallets or split payments through financing options such as buy now/pay later (BNPL). In addition to traditional payment choices (cards, cash), merchants can reduce abandoned orders and boost revenues," adds the report.

Specific to acquiring, the use of artificial-intelligence services, already deployed for fraud-prevention measures, will have an even wider a focus this year, says Scott Talbott, executive vice president at the Electronic Transactions Association, a Washington, D.C.-based acquiring trade organization. Digital assets and privacy issues will assume a higher priority, also, he says.

For its part, the ETA is eyeing three themes in 2025, starting with how payments help power the economy and how they enable small businesses to grow and serve their customers. Another component is how payments enable consumers at all income levels to conduct their financial transactions.

One other topic looms large, as it has done historically. "We're also very engaged on the interchange issue at the state level ," Talbott says.

—Kevin Woodward

CCCA OPPONENTS SPELL OUT THE BILL'S ECONOMIC IMPACT

Opponents of the proposed Credit Card Competition Act expect the bill will be reintroduced in Congress, so the opponents like the Electronic Payments Coalition have launched pre-emptive strikes. The EPC's effort includes a report detailing the bill's potential economic impact.

The study, conducted by Oxford Economics Research, claims the CCCA's impact on the U.S. economy four years after passage would be a drop of $227 billion in discretionary consumer spending and the loss of 156,000 jobs.

First introduced in July 2022 and again in June the following year, the CCCA did not come up for a vote in either session of Congress. Opponents like the EPC and advocates including merchant organizations expect the legislation will be reintroduced in the current Congress, which was seated Jan. 3. The bill proposes to reduce merchants' credit card acceptance costs by requiring a wider choice of networks for processing. Financial institutions with $100 billion or more in assets would be required to enable at least one network other than Visa or Mastercard.

The EPC is touting its report as part of an effort to educate members of Congress on "what the CCCA will do to the U.S. economy," EPC Chairman Richard Hunt said during a press conference announcing the study. "Congress has yet to do an economic impact study on the CCCA, so the EPC decided to do one to help Congress understand how economically draconian this legislation will be," Hunt added.

If the CCCA passes, credit card issuers would suffer a substantial loss of interchange revenue, forcing them to reduce value-added services, primarily rewards, the EPC argues. A reduction in rewards would prompt rewards cardholders to reduce their discretionary spending on those cards, as well as across all payment methods.

Some 86% of consumers, and 77% of lower-income consumers, actively use rewards cards, according to 2021 data from the American Bankers Association, which Oxford Economics Research cited in its study.

Industries hardest hit by the decline in consumer spending would include entertainment and recreation, hotels, dining and catering, retail, and transport services, the EPC says.

Cities dependent on travel and recreation would see the biggest decline in consumer spending, according to the study. Miami, for example, is projected to lose $6.5 billion in consumer spending during the first four years after the CCCA's passage. Las Vegas would experience a $5.8 billion loss, and Orlando a $3.7 billion loss.

While large metropolitan areas would see the biggest spending declines, smaller destinations will

Durbin: Will he stick around to get his credit card bill passed?

feel proportional losses, says Neil Walker, managing director of macro modeling and scenarios for Oxford Economics.

Ski-resort towns such as Aspen, Vail, and Breckenridge, Colorado would sustain a decline of $236 million in consumer spending over four years, while national memorial Mount Rushmore would see a loss of $114 million, Walker figures.

"The effects at the local level are even more pronounced. The data highlights the outsized impact this policy could have on areas dependent on travel and hospitality-driven revenues, which are especially vulnerable to shifts in rewards-driven consumer behavior," Walker says in a statement.

Merchant organizations question the validity of the report's findings, citing other studies that show the economic impact of the CCCA would be far less than the Oxford Economics study claims.

"This study is a piece of warmed-over fantasy that presents discredited assumptions about the CCCA's impact on rewards cards," says Doug Kantor, an executive committee member for the Merchants Payments Coalition and general counsel for the National Association of Convenience Stores. "Card issuers earn more than $300 billion annually in interest income and cardholder fees and pay out just $41 billion annually in rewards."

Issuers could pay "six times" what they currently pay in rewards and "still have plenty of profit left over," Kantor adds.

Both Kantor and Hunt expect the CCCA to be reintroduced, even though one of the bill's sponsors, Sen. Richard Durbin of Illinois, has not committed to running for re-election in 2026.

Kantor expects the legislation to be reintroduced because "it is gaining momentum," but Hunt argues the bill's sponsors will reintroduce it to make good on their promise to the merchant community that the bill will pass.

"Retailers were promised a CCCA victory, so the bill's sponsors have to try and save face," Hunt says. "Most believe Durbin is in his last two years [in Congress] and won't run again, so he will launch an all-out effort to get the bill passed."

—Peter Lucas

THE BIG BANKS' REAL TIME NETWORK NEARS A MILLION TRANSACTIONS A DAY

Consumers and businesses are embracing instant payments at a fast clip, even as volume growth makes double-digit increases harder to maintain. And while businesses account for a large portion of dollar volume, most of those blink-of-an-eye transactions involve consumers, says The Clearing House Payments Co., which last month released the latest statistics for its 7-year-old Real Time Payments network.

The New York City-based system, owned by some of the nation's largest banks, has reached a pace of nearly 1 million transactions per day, with 343 million in 2024, up 38% from 2023. Total value for the year reached $246 billion, fully 94% over the prior year. For the fourth quarter alone, the transaction number came to 98 million, good for $80 billion in volume, up 12% and 16%, respectively, from the third quarter.

All in all, "we're going in the right direction," says a spokesman for the network. "We're happy with the growth." He shies away from projections for 2025, however, saying such a forecast would be hard to make this early in the year.

One encouraging development for TCH is that the system, launched in 2017, is seeing more million-transaction days, after witnessing the first one a year and a half ago, according to the spokesman. "Almost every Friday has been over a million," he says, while noting that day is typically a payday. But "even Sundays tend to be over a million now," he notes.

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And while business dealings have for years accounted for the largest average transaction values, consumers are now involved in fully 88.5% of the network's transactions, the spokesman says, with 11.5% being "pure business-to-business." These consumer transactions typically involve wallet funding, earned-wage access transfers, gig-economy payouts, and sports bets, he says.

Consumers, indeed, are not only more aware of the speedy service, they're showing enthusiasm for it, says the spokesman. "Once consumers or businesses see it, it's 'wow, that was super easy,' they start looking for that [capability] and are even willing to pay a fee. We're seeing it, and our banks are seeing it."

Fees to end users are set by the banks. The fee levied by RTP to the financial institutions is a flat 4.5 cents per transaction to send. There is no network fee for receiving transactions. Charges to end users are out of the network's scope. "We don't know what the end fees are. We purposely stay out of that," the spokesman says.

RTP's results come as businesses and consumers increasingly embrace real-time service. The Federal Reserve, which launched its FedNow network in July 2023, recorded 336,487 transactions in the third quarter of 2024, good for $17.5 billion in value, according to the Fed. That payments count was up 115% from the second quarter.

—John Stewart

VERIFONE'S BIG SALVO IN POINT OF SALE TECHNOLOGY

Verifone last month unveiled a new line of payments devices that observers say represent a a sweeping effort by the 44-year-old company to establish a leading position in fast-moving markets like point of sale, mobile POS, and biometric authentication.

The product launch includes a new set of point-of-sale devices available under a new brand, Victa, and aimed at mobile and multilane use. The devices feature large screens and a Qualcomm processor. Also included in the new product array is Verifone Tap SoftPOS, the company's entry in the rapidly unfolding market for technology that enables ordinary smart phones to accept card transactions.

The third leg of the company's announcement involves a move to incorporate biometric authentication technology to verify that cardholders are who they say they are, using features such as fingerprint readers. This effort includes modules that can be incorporated into "existing devices," the company says.

Victa, in particular, could be a powerful entry for Verifone, observers say, particularly the new line's mobile capability. "Verifone has not been sitting on their laurels. They've been carefully plotting out a product like Victa," notes Cliff Gray, principal at Gray Consulting Ventures.

But he cautions that competition in this market remains fierce, with a wide range of competitive hardware and software. Verifone "has been hunkering down building this stuff," Gray says, "but it's a tough market." Getting devices sold and deployed could be a slow process in any case, he adds, as merchants eye device investments warily and rival device makers step up competition. "It's not an easy adoption," says Gray.

Mobility will be key for these new devices, he adds. "It's more than the point of sale. The point of interaction has been moving very fast," he says. Sales of POS devices in the U.S. market totaled $21.1 billion in 2022, according to Grand View Research, which projects a 6.1% average annual growth rate through 2030.

—John Stewart

MONTHLY MERCHANT METRIC

Chargebacks Transactions %

This is sourced from The Strawhecker Group's merchant datawarehouse of over 4M merchants in the U.S. market. The ability to understand this data is important as SMB merchants and the payments providers that serve them are key drivers of the economy.

All data is for SMB merchants defined as merchants with **less than $5M in annual card volume.** For all industries including Higher Risk

Metric Definitions: (Only use definitions related to an individual month's release)

Chargebacks Transactions % of Transactions - Chargeback number divided by bankcard + OptBlue transactions

	Release A
Q3'23	0.037%
Q4'23	0.034%
Q1'24	0.033%
Q2'24	0.029%
Q3'24	0.031%
Nov'24 (T3M)	0.030%

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IS WASHINGTON WALKING INTO A TRAP?

BY
GIDEON SAMID
gideon@bitmint.com

AT SOME POINT recently, President Trump flipped from dismissing Bitcoin to glorifying this coin, and declaring his wish to turn Washington into the "Crypto Capital of the World." He even spoke of establishing strategic Bitcoin reserves.

For those who are familiar with the mathematical foundation of this digital currency, the alarm bells ring loud and clear. For the many enemies of the United States, the situation suggested by Trump offers a golden opportunity to humiliate Washington. And the more American treasure is banked as Bitcoin, the harder will be the blow.

All the money banked as Bitcoin is hinged on something called the "elliptic curve," which is a mathematical premise that claims that a well-defined mathematical riddle does not have an innovative solution. This premise is cemented by the fact that many academic mathematicians tried to solve this riddle, and they all failed, in that no one published a solution. So we decided to adopt the assumption that U.S. adversaries are not smarter than the academics who failed. And, based on this assumption, we have a reasonable foundation for Bitcoin as a safe way to bank our money.

To solve a mathematical riddle of this kind, one needs matching computer power and matching mathematical insight. It is very difficult for the U.S. to estimate how powerful the computers are that its enemies have. And it is virtually impossible for the United States to assess the brain power of the smartest mathematicians put to work on this challenge.

Say, then, that any statement of confidence about Bitcoin being a safe banking place for American treasure is not of sufficient foundation to risk so much on its prospective validity.

The Elliptic Curve has presented itself as a cryptanalytic target for decades now. The more popular it becomes, the more attractive it is for hackers. Applying the principles of innovation science, and rating the innovation load associated with solving this mathematical riddle, one comes to the conclusion that at least one U.S. adversary has cracked the riddle, or is very close to doing so. And the closer they are, the more vociferously they would argue in public that the riddle is too hard for human innovation to conquer, that Bitcoin is safe, that the elliptic curve is secure.

Whether one thinks that cracking Bitcoin is imminent or far off, there is no disputing that advanced mathematical insight and strong-enough computers will ultimately defeat the elliptic defense. There is also no dispute that, should people be innovative enough to crack Bitcoin's math, all the money held in Bitcoin form will instantly evaporate, leaving no trace, nothing to recover, no remnants. Do we really want to migrate our national wealth to Bitcoin and risk its instant loss?

The risk of instant collapse is shared by all digital coins that rely on stationary mathematical complexity as their vault. What to one person looks like overwhelming complexity looks to a smarter mathematician like a negotiable challenge.

This is not a death sentence on digital money *per se*. Any digital money that is based on a mathematical defense that is dynamic enough to outrun its pursuers, and that offers an open-ended use of randomness, is a solid candidate for the money of the future. BitMint LeVeL, as well as other digital coins, qualify.

Should Bitcoin be thoroughly modified, it will also claim operational security, and then the debate will switch to Bitcoin's claim that a currency that is based on nothing more than crowd enthusiasm can maintain this enthusiasm long enough to argue that it is not a Ponzi scheme. DT

A RESURGENCE OF CASH IN 2025?

BY BEN JACKSON
bjackson@pa.org

WHILE CASH USE has been trending down for a number of years, shoppers, diners, and travelers may soon find more value in paying with coins and folding money.

Like many people, I was traveling and dining out around the December holidays. As I crossed four Midwestern states, it seemed that more merchants were either offering a discount for cash or adding a surcharge for using a credit card.

The difference between the cash and the card price was disclosed in various ways. Gas stations had it on big electronic signs, while in restaurants it either showed up on the menu or on the receipt. Sometimes it was billed as a cash discount, and other times as a convenience fee for cards.

It is difficult to tell how many merchants have jumped on the surcharge bandwagon. Small businesses seem to be leading the way in imposing card fees or offering cash discounts. And while companies have been allowed to surcharge since 2013, judging from local news reports around the country the practice has picked up recently.

Reports over the past year from places like Pittsburgh and Baltimore quote merchants saying the pandemic and inflation led them to look for ways to cut costs. They found an opportunity in encouraging consumers to use cash or charging them to use cards.

Visa and MasterCard rules govern when fees can be added, including a limit on the amount that can be charged (no more than it costs to accept the payment) and limiting the fees to credit cards (fees are not allowed on debit or prepaid cards).

Five states have prohibitions on credit card surcharges, according to a report from Bankrate, and other states impose limits on how much can be charged.

Both network and state rules require that surcharges be disclosed to consumers ahead of the transaction. (I have found that I have had to ask what a “convenience fee” was for on at least one bill.)

These rules might lead some businesses to simply offer a cash discount rather than deal with customer and employee questions and confusion about which cards would result in a fee and then navigate around limits.

But will a discount of less than 5% motivate consumers to start using cash?

Research from the Federal Reserve Bank of Atlanta in 2017 found that consumers who preferred other kinds of payments had an 11.7% probability of switching to cash when offered a discount. A 2023 survey from LendingTree found that 69% of consumers had been charged a fee for credit cards, and 73% of cardholders say they would not keep using cards as much if they had to pay a fee every time.

The statistics suggest that some shoppers will switch payment type if surcharges become a big deal. They might be driven by inflation to prefer cash just like the merchants offering a discount.

How should the industry respond?

First, payments providers will want to understand what their value proposition is in relation to a cash discount. Some cardholders may value a perk like airline miles more than they abhor the fee they are charged.

Second, for customers who are motivated primarily by price, providers should consider what cash-access options are available. ATM fees may help make up some of the lost revenue from transactions moving from card to cash. Finally, providers might consider technology such as mobile wallets and faster payments to offer other solutions to individual and merchant customers.

As payment choices are influenced by changes in the economy, technology, and policy, staying at the top of customers’ wallets will require strategic thinking. DT

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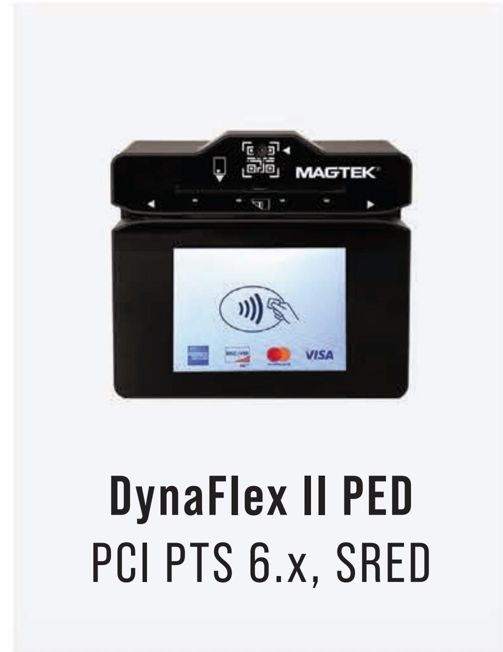

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THE UPMARKET ALLURE

Lots of acquirers see moving up to larger merchants as the next step in growing their portfolios. But it takes more than desire to make this segment a profitable one.

BY **KEVIN WOODWARD**

ONE DEFINITION OF the merchant midmarket is those enterprises with annual revenue ranging from $10 million to $1 billion. They're attractive because they can bring additional scale. That means processors covet them for their ability to add volume, thus spreading processing costs over more transactions. Since scale is a dominant goal in payments, many processors bank on the midmarket.

Moving upmarket is a tried-and-true strategy, but has gained greater attention as companies such as Square, which famously targeted small and micro merchants, began courting mid-size and larger merchants some years ago.

Competitor Shopify Inc. also embarked on an upmarket move several years ago. In 2018, it said its next phase of growth would be "one marked by expansion of our capabilities upmarket and down, in retail, in our ecosystem, and internationally."

Not every payments provider has the resources of Square, which is owned by Block Inc., or Shopify. Still, that doesn't mean it's a move to shy away from. It takes work, including proper planning.

"Many payments companies have benefited from moving upmarket to serve mid-size and enterprise merchants, but it's not without its challenges," says Raviraj Hegde, senior vice president of growth at Donorbox, an Alexandria, Va.-based fundraising payments platform.

"It could make sense for a company if it has the infrastructure to deliver complex [point-of-sale] solutions, advanced analytics, and tailored support," Hegde says. "More often than not, larger merchants require more than just basic payment

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processing; they demand integrations, detailed reporting, and any tools that enhance operational efficiency. For those businesses better prepared to fulfill these needs, the rewards will be greater revenue opportunities and more enduring relationships with clients."

'FROM BROAD TO DEEP'

What's needed to make an upmarket move is a clear value proposition and an understanding of which customers benefit most from their products and services, says Jenn Reichenbacher, chief marketing officer at Stax Payments Inc., an Orlando, Fla.-based payments provider.

"To me, this is what guides a company's ability to expand their reach, whether that's by size of merchant, new verticals, or geographies," Reichenbacher says.

It likely will not be an easy transition. "The midmarket is tough," warns Don Apgar, director of payments at Javelin Strategy & Research, a financial services research firm. "When you get into that larger segment, the key to being able to sign that business is bringing something the merchant knows he needs or doesn't know he needs. It could be a new gift card program, buy now, pay later options, or an issuing program."

These new features are critical. "Because of the friction involved in switching there has to be a reason for the merchant to switch," says Apgar.

That friction he refers to arises from the fact that many merchants may use point-of-sale systems and software specifically designed for their industries and geared to provide more than payment acceptance. And, as Apgar explains, larger merchants may require an acquirer to go deeper rather than broader.

A merchant may want a much deeper payments product set, but isn't looking for ancillary services, such as payroll or personnel management, because it uses other specialized providers for these, he says. "As you go upmarket, you go from broad to deep in the feature set," Apgar says.

A small-to-mid-size business wants a broad offering to minimize complexity, but larger merchants can be more comfortable with that. "As you move upmarket, the businesses get larger, and larger merchants are doing these functions themselves. They're running payroll, they have their own revolving line of credit," Apgar says. "Now, they go deep."

That means they need payments orchestration, routing, and better performance out of the core thing they are buying, which is payments processing. It also means acquirers need to be as educated about their products and their prospective customers' needs as possible.

'MONTHS OR YEARS'

"Generally, [small-and-medium-size] providers are offering packaged services with less customization permitted, so the processor needs to ensure that their offerings are 'ready for mid-size prime-time,'" says Thad Peterson, strategic advisor at Datos Insights, a Boston-based consulting and services firm.

"Another challenge is that, while the smaller players are moving upmarket, larger players are moving down into the mid-size market, so the competition is increasing in that category," Peterson adds.

Realism should be a key part of planning an upmarket move.

"It's not surprising that firms that historically have focused on smaller micro-merchants have expanded their offerings to mid- and enterprise-level [sellers], but they need to be realistic about how their products solve for the customer and their size," Reichenbacher says.

"Service is also a major factor, as enterprises, for example, have very specific support requirements with more dedicated and on-site

Peterson

Peterson: For larger merchants, acquirers "should be prepared to deliver a customized solution."

needs, versus smaller merchants who are happy to be supported via chat, email, or over the phone," Reichenbacher adds.

For upmarket success, the sales approach must be different, too.

"Mid- and enterprise accounts require a more strategic approach end-to-end from marketing to sales to support," Reichenbacher says. "From a sales perspective, it's a longer-term sale, oftentimes involving multiple decision makers, a [request for information] or [request for proposal], and then a longer legal negotiation. Sales cycles on [small-and-medium-size merchants] can be days or weeks while mid-[size] and enterprise [sales] are most often months or even years in the making."

Acquirers must focus on a clear list of prospects, she says, so the marketing investment is effective in building the sales pipeline.

"Sales partnership and focus are key to ensuring the marketing and sales efforts are reaching the top [prospects] for each sales leader," Reichenbacher says. "The strategy must involve a combination of digital, email, social, thought leadership, events, and outreach. Storytelling is also key—ensuring that your packaging is aligned with the pain points of the prospects you're targeting and speaking with and leveraging third-party validation as much as you can."

ADDED COSTS

And the sales cycles tend to be longer than for smaller businesses, "because merchants have a lot more at stake," Apgar says. "The merchant tends to be a little more cautious in making a decision. They will do more due diligence." The sales cycle may range from nine to 12 months, he says.

At the same time, a larger merchant may have staff that is as well-versed in payments processing as an acquirer, says Peterson. "Larger merchants often have dedicated payments teams with a great deal of expertise and high expectations," he says. "They will expect their provider to be fully versed on the issues that larger businesses confront and they should be prepared to deliver a customized solution."

And then there's the added costs, such as marketing expenses.

"Companies that do very well with the smaller merchants may find the rising cost of acquisition and the requirement for specialized support teams a burden," Hegde says. "Mid-size and enterprise merchants are different. They require a consultative selling and relationship-building sales approach. The investment needed to [provide] these clients with customized solutions can put stress on companies not prepared to scale."

The payoff, however, can be very valuable. Not only could the additional transaction volume lower a platform's overall transaction cost, but the brand recognition enjoyed by larger customers could persuade other large merchants to switch.

"This is a company-by-company decision, but overall the value comes in transaction and processing volumes, recognition, enterprise business value, and overall payment capabilities," Reichenbacher says. DT

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WILL REGULATORS EVER LEARN?

There's nothing wrong with the U.S. payments business that government mandarins can fix. For proof, look no further than recent history.

BY **ERIC GROVER**

Eric Grover is principal at Intrepid Ventures.

THE U.S. PAYMENT system is the most competitive and innovative in the world. It continues to improve notwithstanding politicians' and regulators' meddling and their efforts to politicize payments.

The U.S. has several dozen traditional and alternative retail, peer-to-peer, bill-pay, and interbank payment networks. Established payment systems work well, have critical mass, and are a habit. Consumers and businesses take their value and convenience for granted.

Incumbents and challengers, nevertheless, continue to deploy entrepreneurial verve and capital to try to enhance and even disrupt the existing system. People have rarely known they needed particular enhancements to payments systems, until they arrived.

Policymakers can speculate about, but can't possibly know, what new vectors of payments competition and innovation will be successful. There is a danger that government interventions, intentionally or unintentionally, will put a damper on these efforts.

Other than the Fed's interbank payments systems, digital dollars on the central bank's balance sheet, and Federal Reserve notes distributed through banks, the U.S. payments system is dominated by private-sector banks, traditional and alternative payment systems, processors, and fintechs.

Banks play a critical role in payments and are where most funds move. As a legacy of interstate and branch-banking restrictions, the U.S. has more banks than any other country on Earth. At the peak in 1921 there were 30,456 commercial banks. By September 2024, the number had fallen 87% to 3,966.

Their vast resources, reach, and scale give colossi like Chase, BofA, Wells Fargo, and Citi distinct advantages. The ever-increasing regulatory burden further disadvantages

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small banks. There are tradeoffs between efficiency and innovation. A handful of banking giants would be more efficient, but thousands of smaller banks, sometimes on their own, and often with nonbank partners, are a source of payments experimentation and innovation.

With American Express, Discover, Mastercard, and Visa vying for share, the U.S. credit card network market is the world's most competitive. Consumers have enormous choice, and convenient revolving credit is widely available across the risk spectrum. More than 82% of adult Americans have at least one credit card, most of which have rewards and no annual fee.

Nevertheless, politicians on the left and populist right are demagoguing for destructive credit card interest rate caps, which would reduce credit availability. In 2024, the Consumer Financial Protection Bureau tried to slash credit card late fees to $8, which would make it more difficult to serve risky consumers and encourage delinquency.

The US debit network market, too, is the most competitive on the planet. The number of U.S. ATM and debit networks peaked at 130 in the mid-1980s and at 44 in the mid-1990s, respectively. With merger activity, it has consolidated to 16 debit networks, with Visa, Mastercard, Discover, Fiserv, and FIS each owning two, and China UnionPay having a de minimis share.

POLITICALLY UNSYMPATHETIC

Mergers can increase scale, capabilities, and delivery footprints, intensifying payment-network competition. Mastercard acquired the ATM network Cirrus in 1985. Visa acquired a third of the Plus ATM network in 1987 and the remainder in 1993. It acquired the Interlink debit network in 1991.

Discover acquired the Pulse debit network in 2005. In 2006, at Morgan Stanley's "Under the Hood" conference, chief executive Ken Chenault entertained the idea of American Express entering the debit network market. The idea took a while to gestate. In 2021, AmEx started issuing its own debit card.

Notwithstanding robust competition and value for consumers, Washington can't resist trying to direct the market. In September, the Justice Department filed an antitrust suit against Visa, the leading debit network. The action won't improve competition, innovation, or consumer value.

Politicians and regulators have tried to score political points pillorying Capital One's proposed acquisition of Discover. If Washington doesn't block it, this combination will rock the market, particularly boosting debit-network and card competition.

The Dodd-Frank Act imposed price controls on politically unsympathetic large banks' debit-interchange fees, which fund fee-free accounts and cards, rewards and benefits, and issuer innovation. By diktat, the CFPB capped large banks' over-limit fees at $5—a punitive and overtly political move.

There are three at-scale electronic P2P payment systems, Zelle, PayPal/Venmo, and Cash App, plus traditional money-transfer networks like Western Union, MoneyGram, and Ria.

In perhaps what was his last hurrah, Rohit Chopra's CFPB sued banking titans BofA, Chase, and Wells Fargo, contending they're not preventing fraud on Zelle.

All payment systems have fraud. The trick is to balance user convenience and security, which the industry dynamically does. If you impose enough restrictions on a

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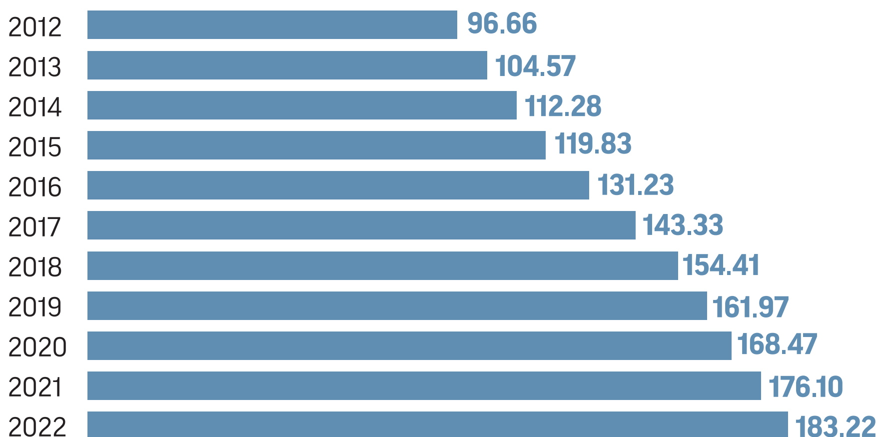
(U.S. credit card transactions per capita)



Source: Statista

payment system, you can nearly eliminate fraud—but you can also make the system unusable.

NO CIGAR

Regulatory poohbahs, no matter how bright, can't divine what consumers and businesses want or need in payments.

Nobody "needed" mobile payments before they existed. Now, consumers and businesses take for granted the ability to make and receive payments anywhere and anytime on mobile phones.

Open banking was pioneered in the 1990s. If consumers value open banking, some banks will embrace it as a way of differentiating themselves. As has been its wont, the CFPB issued an open-banking rule that was baldly political, exempting banks and credit unions with under $850 million in assets.

Buy now, pay later systems providing low-friction, generally fee-free short-term consumer credit are winning share. In May 2024, the CFPB issued an interpretative rule with no basis in law redefining BNPL services as credit cards to give borrowers comparable dispute rights. Ensuring full disclosure of financial services' material features is in the bureau's mission. Mandating features, however attractive they may be, is not.

Evangelists have enthused that digital currencies would disrupt the reigning payment systems. So far, no cigar.

The first digital currency, Digicash, launched in 1989 and shuttered in 1998. It didn't solve a problem. The first digital-ledger-based cryptocurrency, Bitcoin, debuted in 2009. As of December 14, 2024, there were 496 cryptocurrencies with a market capitalization greater than $100 million. While they've been successful in niches, they've yet to make inroads in licit mainstream payments.

Some want Washington to participate in, and prop up, cryptocurrencies. Republican Senator Cynthia Lummis's Bitcoin Act would have the government make a huge speculative bet by buying up to a

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million bitcoins. This disguised federal borrowing would inflate bitcoin's price.

With a more digital-currency-friendly administration, stablecoins, the largest of which are backed 1-to-1 by dollar-denominated assets, have the potential to be the 21st Century's electronic analog of banknotes. While none will be anonymous like cash, reasonable privacy provisions can be built in.

Notwithstanding higher velocity than traditional commercial bank money, they should be low risk. In that vein, subject to prudential regulation, stablecoins could instead be subject to fractional reserves, enabling them to support more credit.

A POOR TRACK RECORD

Digital wallets can be platforms to more conveniently manage payment credentials, payment systems, or both.

PayPal was the first general-purpose digital wallet to achieve critical mass. It wasn't designed in Washington. In "Cashless Revolution," Martin Chorzempa documents how super apps in a narrow window of regulatory *laissez-faire* revolutionized China's payments markets.

Many hoped—and some, like lame-duck CFPB Director Chopra feared—the super-app model would dominate in the U.S. But while they continue to improve, PayPal, Apple Pay, Google Wallet, and Cash App don't approach the 100-proof super-app model pioneered by Alipay and WeChat Pay. Consumers haven't seen a compelling need.

Interbank payments have high barriers to entry. Nonetheless, the U.S. has multiple competing payment networks enabling value transfer between bank accounts. The Fed spent $545 million to implement its instant interbank payment system FedNow. The central bank isn't directing the private sector. It's competing with it.

Grover

Grover: "A competitive payment system that permits experimental innovation and failure will produce more innovation and strengthen the entire system."

Prudential regulators focus on preventing failure. Their track record is poor. The financial system's paramount regulator, the Fed, was blindsided by the financial crisis in 2008.

In the runup to that crisis, Fed Chairman Ben Bernanke said "the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system."

In March 2023, Silicon Valley Bank's collapse was the third-largest bank failure in U.S. history. It was doomed by an asset-and-liability mismatch. SVB had a highly concentrated deposit base—short-term liabilities and a huge portfolio of long-term mortgage-backed securities its regulars deemed safe from a credit perspective and encouraged it to hold.

However, when interest rates soared, the value of SVB's assets plunged, depositors fled, and the bank crashed. There was nothing exotic about the risk. SVB's chief regulator, the San Francisco Fed, was asleep at the switch.

THE NIGHT WATCHMAN

Policymakers worry about money laundering, fraud, tax evasion, other criminal activity, and systemic risk.

A competitive payment system that permits experimental innovation and failure will produce more innovation and strengthen the entire system. In philosopher and risk engineer Nassim Taleb's framework, it's anti-fragile. The system becomes more resilient as resources are continually allocated from weaker or flawed to stronger players.

Payment systems including Debitman, Revolution Money, CurrentC, Softcard, Beenz, Flooz, Mondex, Cybercash, First Virtual, Pay by Touch, Carte Blanche, and Bling Nation all failed, and the entire payment system didn't miss a beat. All major payment-system crises in the modern era have been caused by governments massively debasing their money. Venezuela and Zimbabwe are grim and vivid examples.

The lesson from all this? Policymakers should aim for a light, transparent, and ruthlessly and impartially enforced regulatory regime, with regulators playing the role of the nightwatchman, with like rules for like activity, and low to modest entry barriers. DT

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The Interchange Battle 2025

With the fight over interchange showing no signs of abating, merchant groups look to legislation as the problem solver.

BY PETER LUCAS

The ongoing battle between merchants and card networks over interchange and network fees has only intensified since the adoption of Regulation II, which capped debit interchange, more than a decade ago. And there are few if any signs that tension over the issue of transaction costs will cool this year.

The latest salvo, intended as a pre-emptive strike, was fired in early January by the Electronic Payments Coalition, which released a study detailing the negative impact the Credit Card Competition Act would have on the United States economy if passed.

The study, conducted by Oxford Economics Research, claims the CCCA's impact on the U.S. economy four years after passage would amount to a drop of $227 billion in discretionary consumer spending and the loss of 156,000 jobs.

The CCCA did not come up for vote in the previous Congress. It proposes to reduce network fees by requiring card issuers to offer a wider choice of networks for processing beyond just Visa or Mastercard. This choice, merchant organizations contend, would create more price competition among card networks and so lower card-acceptance costs.

The EPC released the report on the expectation that the CCCA would be introduced in Congress this year, the third time it will have come before lawmakers. Proponents of the CCCA concur the bill is expected to be reintroduced this spring or earlier.

"We expect a big push [for the CCCA] in the new Congress, because retailers were promised a victory," EPC Executive Director Richard Hunt said during a press conference unveiling the study. "We call [the CCCA] the government credit card takeover bill and we want Congress to understand how economically draconian it will be."

But legislation aimed at regulating interchange also looms on the state level. In 2024, Illinois became the first state to pass a law exempting merchants in the state from paying interchange on sales tax and tips in exchange for capping what the state pays merchants to collect sales tax.

The law, which was scheduled to go into effect July 1, was put on hold late last year when United States District Court Judge Virginia Kendell granted a preliminary injunction.

At least 12 states are reportedly preparing to introduce similar legislation, while lawmakers in several more states are rumored to be considering similar bills.

Already this year, bills like the Illinois law have been pre-filed in Texas, Connecticut, and Washington before each state's respective legislatures convene for 2025, according to the Electronic Transaction Association. Arizona is another state expected to file interchange legislation soon.

"We've seen a few bills similar to the Illinois law filed in other states already this year," says Scott Talbott, executive vice president for the ETA

Efforts among the states to regulate interchange are reportedly being driven by merchant organizations that view the Illinois law as a blueprint for how to provide merchants some interchange relief.

'A Good Threat'

Another factor expected to fuel the battle over interchange is a growing awareness among members of Congress that overall fees for credit card acceptance, also known as swipe fees, are becoming a problem for merchants. This is an especially acute issue for smaller merchants, payment experts say.

Swipe fees comprise three separate charges: interchange, of course, but also network and processor fees. Of those three, credit card interchange is the costliest, payments experts say.

The longstanding dispute over card-acceptance costs has frayed relations between merchants and card issuers, but it is also showing signs of taxing legislators' patience. In November, Sen. Thom Tillis of North Carolina told representatives of Visa Inc. and Mastercard Inc. and the merchant community to buckle down and negotiate an end to their dispute over credit card swipe fees.

"Get in the room and solve the problem, because I'll guarantee you the solution coming from Congress won't be good for anyone," Tillis said during a Senate Judiciary Committee hearing last November.

During the same hearing, Sen. Josh Hawley of Missouri took the card networks to task over their profit margins. When asked directly by Hawley what their respective margins are, representatives of both Visa Inc. and Mastercard Inc. said they are about 50%. The networks levy network charges, but interchange flows to card issuers.

Now merchant representatives are optimistic that the issue of card costs may be heading for a resolution. "There's a growing recognition [among members of Congress] that things need to change when it comes to swipe fees and how the card networks treat businesses," says Doug Kantor, a Merchants Payments Coalition executive committee member.

Kantor, who is also general counsel for the National Association of Convenience Stores, adds: "Momentum for change is growing, and I think this will be an active year on the legislative front."

Reasons vary for why the merchant community is turning to legislation to rein in interchange. One of the most prominent is that legislation, while not a sure thing to pass, provides a big stick for merchants.

Payment experts point to the passage more than a decade ago of Regulation II, known also as the Durbin Amendment, to support their point. Among other things, the law regulated debit card acceptance costs.

"Even if merchants can't get legislation passed, it is a good threat to use as a negotiating tool," says Ben Brown, a partner with Flagship Advisory Partners, an Amsterdam-based payments consultancy with U.S. offices. "A lot of people thought the Durbin Amendment would not pass, but it did, and since then there has been a constant barrage to regulate interchange."

'A Duopoly'

At the heart of merchants' ongoing battle is their argument that interchange, which is set by Visa and Mastercard on behalf of card issuers, is considered non-negotiable at the network level.

"Interchange is something that merchants have the least control over or leverage to negotiate" when it comes to card-acceptance costs, says Dylan Jeon, senior director of government relations at the National Retail Federation. "Interchange fees are basically a take-it-or-leave-it deal."

Still, this isn't always the case for the very largest retailers. Payment experts note that behemoths like Wal Mart Inc. have high enough card volumes to negotiate interchange rates directly with the card networks.

One big change merchants would like to see is the opportunity to provide "meaningful input or recourse" in the setting of interchange rates, as sellers are the ones "paying the fees," says Rob Karr president and chief executive of the Illinois Retail Merchants Association, which lobbied for passage of the Illinois interchange law.

Talbott: "Payments help businesses, especially small businesses, make, expand, and increase sales."

"The card networks are effectively a duopoly," Karr points out.

On the flipside, the card networks argue that interchange drives value through fast, secure, and convenient ways for consumers to buy goods and services.

"Payments help businesses, especially small businesses, make, expand, and increase sales," says the ETA's Talbott. "The payments industry drives ever-increasing value by developing and deploying new products and services to allow merchants to reach their customers. Both the cost and value of these new products and services [are] what drives fees up or down."

Should merchants be successful in obtaining interchange relief through legislation like the CCCA, card issuers argue their margins would be substantially reduced. That, in turn, would reduce their ability to fund credit card rewards, they say.

Indeed, payments experts point to how debit card rewards dwindled and eventually went away after the Durbin Amendment was implemented to cap debit card rates.

"Interchange is fundamental to the card industry. Change its structure and it will likely cause issuers to rethink their value-added offering, such as rewards," Brown says. "Merchants are trying to make use of all the tools they can to manage their costs in an environment when costs on all fronts are under attack."

The Negotiable Part

One issue overlooked in the interchange debate is that processing fees, which represent a substantial portion of card- acceptance costs, have been increasing. "If interchange is non-negotiable, then merchants should turn their attention to the portion of swipe fees that is negotiable, which is processing fees," says Michael Seaman, chief executive of Swipesum, a Clayton, Mo.-based processor.

Since Regulaton II's implementation, processing fees now represent a larger portion of debit-card acceptance costs than interchange. This past year, the Federal Reserve began weighing a proposal to lower the cap on debit interchange.

The Fed initially made its proposal in October 2023 as part of an effort to update Regulation II. It would in effect cut the maximum interchange fee banks can charge on debit card transactions by nearly one-third.

THE INTERCHANGE PERCENTAGE

Visa	1.23% to 3.15%
Mastercard	1.15% to 3.15%
Discover	1.56% to 2.40%
American Express	1.19% to 3.15%

Note: Fees vary by volume and are typically accompanied by a fixed fee from a nickel to a dime per transaction.Source: Helcim, Mastercard, Visa

In December, the American Bankers Association sent a letter to the Fed arguing that further lowering the cap will harm black households in particular. It would leave more members of that community unbanked as financial institutions look to compensate for lost debit income, the ABA argued.

In addition, the trade group said community banks would have to look to new or higher fees for checking accounts and fraud prevention would suffer as banks look to compensate for reduced income.

"Efforts to reduce [debit] interchange costs have not led to a decrease in processing costs for small businesses or a reduction in costs to consumers," says Kari Mitchum, vice president, payments policy, for the Independent Community Bankers Association. "Small businesses should ask themselves if the Fed's proposal will make a real difference in their debit-acceptance costs because it really does not address [debit swipe fees], just interchange."

To illustrate her point, Mitchum says the Fed's proposal would lower interchange on a $50 debit transaction from 25 cents to 18 cents. Yet processing fees charged by fintechs such as PayPal, Stripe, and Square would be $1.98, $1.75, and $1.40, respectively.

"By helping small-business customers understand swipe fees and what percentage is interchange-related, it will become clear to the public that lowering bank interchange will not reduce small-merchant costs," Mitchum adds.

The week after the ABA sent its letter to the Fed, the MPC sent a letter to the central bank contending that financial institutions merely want to maintain the "status quo" on debit interchange. It argues Visa and Mastercard set this cost at "lucrative levels that exceed the reasonable and proportional standard Congress established," according to the letter.

Last May, the MPC said the Fed's proposed reduction for debit interchange does not go far enough because it would lower the amount banks can charge by less than a third, even though banks' average cost of processing a debit card transaction has fallen by nearly 50%, from 7.7 cents before the current rate was set to 3.9 cents as of 2021, according to a Federal Reserve report cited by the MPC.

"Banks are making more money on debit transactions than they should in a competitive market," the MPC's Kantor argues.

High-Octane Marketing

Merchant organizations plan to continue fighting to reduce interchange rates, but one thing merchants can do in the meantime is audit the monthly statement they get from their processors to ensure they qualify all transactions for the lowest interchange rate, Seaman says.

"One of the biggest things missing in merchants' efforts to lower interchange is to make sure they are taking advantage of interchange discounts," Seaman adds. "Merchants can also work on lowering processing fees. Flat-rate fees are always going to be more expensive, but many merchants are okay with a flat rate" because it is easier to calculate a flat rate than a percentage-based fee.

Other ways merchants can lower acceptance costs is to add lower-cost alternative payment methods, such as pay-by-bank. But alternative payment methods aren't always as economical as merchants think, says Flagship Advisory's Brown.

"To get consumers to use pay-by-bank will probably require some type of incentive, which comes with a cost," Brown says. "Offering more than five payment options can also reduce conversions, because too many payment options can be confusing for some consumers."

With merchant organizations eyeing legislation as the path to success for curbing interchange costs, one thing is certain: Both sides in the battle will unleash high-octane marketing campaigns to sway legislators and the public to their respective points of view. When that happens, the winner will be the side with the best lobbyists, payment and political experts say. Stay tuned. DT

Kantor: "Momentum for change is growing, and I think this will be an active year on the legislative front."

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HOW TO SURCHARGE LIKE A PRO

The key lies in navigating network surcharging frameworks to avoid costly mistakes.

BY **CLIFF GRAY**

Cliff Gray is principle at Gray Consulting Ventures, a payments advisory.

AMID RISING INFLATION and persistent economic uncertainty, merchants are more cost-conscious than ever, scrutinizing every expense to protect their bottom lines. Interchange fees, a long-standing source of frustration, have become a focal point of their discontent, fueling debates over fairness and the financial burden imposed by the card networks.

For many, the solution is to surcharge.

Surcharging has exploded in many verticals as an effective means of offsetting payment-processing fees. Unfortunately, the trend is outpacing the regulators. Visa recently experienced a glaring example of this when its chief executive was surcharged in violation of compliance standards three times. On the same day. At the same merchant location. In Visa's own building.

For the network, which has been intensely focused on the surcharging issue for some time, this serves as a stark reminder of the problem's scale.

Done right, surcharging is a practical way to manage costs. Done wrong, the fallout can be devastating for the unwitting merchant. This is by design, as non-compliant surcharging poses a direct challenge to the networks' legitimate focus on preserving brand loyalty.

WIDESPREAD NONCOMPLIANCE

If you're a merchant considering surcharging, here's what you need to know to surcharge like a pro and avoid landing in the networks' crosshairs. Other brands have rule sets around surcharging, but I'm limiting this article to Visa and Mastercard rules for the sake of clarity, as there are subtle differences in other brand policies.

You are encouraged to investigate surcharging rules for any brand you accept. Digital copies of surcharging rules are publicly available, or your merchant service provider or sponsor bank can provide them.

So, what exactly is (and isn't) surcharging?

It's is the practice of passing on the cost of credit card acceptance to the cardholder. Instead of absorbing card- processing fees, merchants add a compensatory fee to the transaction when customers choose to pay with a credit card.

The classic example of surcharging comes from the petroleum business. Who doesn't remember gas stations listing per-gallon prices as cash vs. credit?

Surcharges are explicitly tied to the use of credit cards, so they don't apply to debit cards. The surcharge rules are ostensibly to protect consumers from overcharging and ensure fair practices, but these rules also define a strict framework around if, when, and how the merchant can surcharge.

Convenience fees, by contrast, are charged for the privilege of using a specific payment method, like paying online instead of in person. Service charges are broader fees applied regardless of payment method, often as part of the overall cost of doing business. Understanding these distinctions helps merchants remain compliant while effectively managing costs.

It's easy to understand the brands' emphatic concern about non-compliant surcharging, which stems from a dramatic surge in merchant adoption and, unfortunately, widespread non-compliance. From excessive surcharge amounts to improper disclosures, surcharging complaints have skyrocketed by a factor of 20 in the previous two years.

Too many merchants are cutting corners—typically in a bid to maximize revenue, often ignorant of the rules. But Visa, Mastercard, and the other card networks are all keeping a close eye on the practice. They're not against surcharging. They're against non-compliant surcharging.

Gray

Gray: "Surcharge away—but do it smartly."

Knowing they had a problem long before the now-infamous triple surcharge incident in their own headquarters, Visa's stance has been clear, and shared by its brother networks: We're paying attention—close attention. Follow the rules, or face penalties, reputational damage, and possibly lose the ability to accept our brand altogether.

FOLLOW THE RULES

Here's the lowdown on the Visa and Mastercard surcharging rules. Merchants that stick to these will stay in the clear.

- **Notify the Network and Your Acquirer.** Merchants must provide written notice to Visa/Mastercard and their payment processor/acquirer at least 30 days before implementing surcharging. Most acquirers will notify the networks on your behalf; Mastercard requires registration from the acquirer.
- **Credit Cards Only.** Surcharging is allowed on credit cards only, not debit cards—even if the debit card is processed like a credit card, without PIN entry. Surcharging on debit is a prevalent trend getting merchants in trouble. In some cases, third-party solutions are where the trouble lies. If your point-of-sale terminal or e-commerce gateway isn't configured properly, you may already be in violation.
- **Cap the Surcharge Amount:** For Visa: The surcharge cannot exceed the merchant's actual cost of acceptance or 3% of the transaction amount, whichever is lower. For Mastercard, the surcharge is capped at the lesser of the merchant's Mastercard discount rate or the "maximum surcharge cap," separately determined and published by Mastercard.
- **Disclose Clearly at Point of Entry:** Merchants must display prominent signage at the point of sale to inform customers of the surcharge. Transparency is non-negotiable. This is a common pitfall for merchants, particularly in e-commerce verticals, where third-party checkout is often implemented. Merchants should ensure their providers are displaying proper notifications of surcharges prior to the point of entry. (The gas-station example is right on point here, as consumers were clearly informed of additional cost if they chose to pay via credit.)
- **Surcharge Uniformly:** Both Visa and Mastercard allow merchants to impose surcharges at the product or brand level, but the surcharges must be uniform across the selected category (for example., all Visa or Mastercard

credit cards or specific product types like "World Mastercard"). Both networks prohibit surcharging at both the brand and product levels simultaneously.

- **Follow State Laws:** While surcharging is permitted under federal law, some states still restrict or prohibit the practice. As of this writing, most states allow surcharging, but merchants should verify local laws to avoid legal headaches. (Visa and Mastercard policies cede their own rules to state or federal laws.)
- **Separate Fee Line Items:** The surcharge must appear as a distinct line item on the customer's receipt. Bundling it with the transaction total is not allowed.

AVOIDING MISSTEPS

So, back to that example of the CEO's purchases. What went wrong? It's unclear whether the surcharge exceeded the cap, wasn't disclosed properly, or was incorrectly applied to a debit card. But being charged three times in one day suggests a systemic failure, one that could have been avoided with proper implementation.

When navigating this process, it's essential to remain vigilant for potential missteps that could derail your efforts or lead to unnecessary complications. Here are some of the most frequently encountered pitfalls, along with insights to help you sidestep them effectively:

- **Mixing Up Card Types:** Accidentally surcharging a debit card is one of the more prevalent violations, and by far the most expensive. Fees begin at $1,000 upon first offense, and quickly rise to $25,000 per violation for repeat occurrences.
- **Relying Solely on Third-Party Compliance:** Given the wide array of POS and POI solutions in play today, this is a rapidly emerging root source of non-compliance. Merchants often put too much trust in their third-party provider to consistently meet network compliance requirements. Unfortunately, non-compliant hardware or software is no defense when it comes to network assessments or penalties.
- **Failing to Train Staff:** Proper employee training is critical to ensuring surcharges are applied correctly and in compliance with both network rules and legal requirements. Employees should be well-versed in identifying eligible transactions, communicating surcharge policies to customers, and following the correct procedures at the point of sale. In-house developers must fully understand the rules to ensure accurate programming.
- **Skipping Notifications:** If you don't notify the brand and your acquirer, you're out of compliance from day one. As mentioned above, notifying your acquirer should trigger notification to Visa, but the merchant may notify directly. Mastercard requires registration by the acquirer.
- **Overcharging:** Even a penny over the cap can result in penalties. This lies at the heart of the surcharging theme—to surcharge more than your cost of acceptance is, by definition, to profit from the surcharge, which violates network rules and undermines trust among merchants, cardholders, and the payment ecosystem.

FINAL THOUGHTS

For merchants, crossing the line with surcharges is potentially fatal. Non-compliant surcharging can result in chargebacks, fines, or even loss of the ability to process payments. No less important, it erodes customer trust. Nobody likes unexpected fees, especially if it appears he is being overcharged.

It's easy to imagine the scenario: a consumer is surprised after being charged more than expected—no signage or notifications; nothing on the receipt. The consumer promptly disputes the transaction, leading to an undefendable chargeback to the merchant. And a potential fine from the network. Ouch.

Worse, it erodes trust in the merchant's own sponsors and regulators—the acquirer and the networks. In this industry, merchants are well advised to avoid angering their sponsors, which hold all the evidence and possess a memory that never fades.

But done correctly, surcharging can be a valuable tool. Legitimate surcharging allows merchants to offset rising interchange costs while maintaining critical transparency with their customers. In today's economic climate, even the smallest incremental savings move the needle.

Surcharging isn't just about following rules. It's about creating a seamless, transparent experience for your customers. Heightened focus on enforcement is a reminder that compliance is critical. And ignorance is no excuse.

I'll leave you with this: Surcharge away—but do it smartly. Follow the rules, train your staff, and ensure your systems are set up for frictionless, legitimate surcharging that will thrill the CFO. DT

INTELLIGENT RISK IN RETAIL PAYMENTS

More than ever, it's crucial that sales and risk management collaborate.

BY **SCOTT DAWSON**

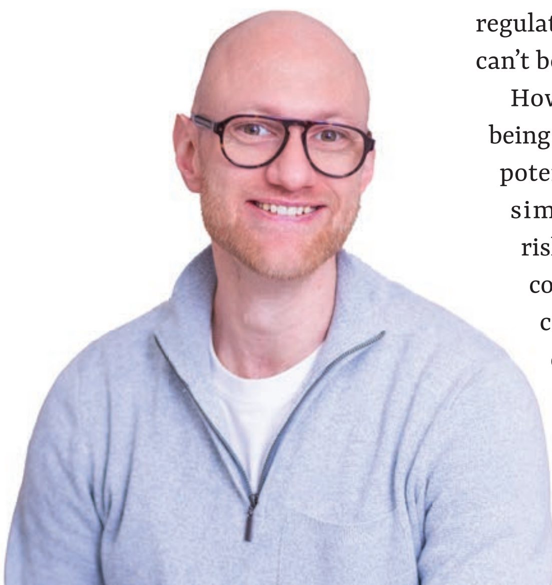
Scott Dawson is chief executive officer at DECTA.

EVERY SATURDAY morning, I lace up my gloves and step into the ring for a Muay Thai session. While the world of combat sports and payments might seem worlds apart, there's a surprising parallel to draw in the art of identifying and managing pain.

In the ring, there's the superficial pain of exertion, the kind that strengthens you with each punch and kick. Then, there's the deeper, more dangerous pain that signals something is actually wrong. Learning to distinguish between the two is a hard-won lesson, but one that extends far beyond the ropes.

The same principle applies to the world of payments. There are instances where a company must decline a merchant, whether for non-compliance or blatant disregard for regulations. These are red flags that can't be ignored.

However, there's also a risk of being overly cautious, turning away potentially profitable merchants simply because of perceived risks. By taking the time to work collaboratively to mitigate risks, companies can unlock valuable opportunities.



Effective risk management is a delicate balance. Too stringent a policy can stifle growth, while a *laissez-faire* approach can lead to costly consequences. The key lies in a nuanced, risk-based approach. By striking a balance between caution and opportunity, payments companies can better protect their business while driving revenue.

UNDERSTANDING RISK

Every transaction contains an element of risk. If you've ever seen somebody bite a coin to check that it's genuine or hold up a banknote to the light, you've seen somebody try to reduce payments risk.

Today, online payments primarily carry risks of fraud and chargebacks. Some classes of merchant will be more prone to these risks than others, and a whole host of factors will have significant effects. These include everything from verticals the merchant operates in and the country in which the company is based to the time of year the payment is made (fraud and chargebacks are both more common during peak shopping seasons).

This is especially the case in real-time payments. When payments happen almost instantly—a rising trend in global commerce—organizations across the payments ecosystem have markedly less time to catch errors.

This means companies working with real-time payments need partners that can balance speed and security. It means payments partners must take compliance very seriously, no matter the size or risk profile of the companies they work with.

Merchants that are classed as, or prove themselves to be, high-risk will typically pay more for transactions or be barred from dealing with certain payment providers. These high-risk companies provide goods and services such as firearms, adult content, or gambling.

RISK, SALES AND COMPLIANCE

Risk management and compliance, while often intertwined, are distinct concepts. Compliance ensures adherence to regulatory and operational guidelines, while risk management assesses and mitigates potential financial, operational, and reputational threats.

A common misconception is that high-risk merchants are inherently non-compliant. This is a dangerous oversimplification. While some high-risk merchants may indeed be non-compliant, many are legitimate businesses operating in regulated industries. Conversely, low-risk merchants can sometimes fail to meet specific compliance criteria, perhaps due to administrative oversights or insufficient documentation.

A persistent challenge in the payments industry is the tension between sales and compliance teams. Sales teams often prioritize rapid growth and revenue generation, while compliance focuses on risk mitigation and regulatory adherence. This can lead to a zero-sum game, where sales pushes for aggressive onboarding, but compliance resists, leading to missed opportunities and potential risks.

Both teams must work together to achieve a common goal: sustainable growth with minimal risk. Sales teams should be well-versed in risk and compliance guidelines. They should be empowered to identify potential risks and escalate concerns to compliance, rather than push for deals that could jeopardize the company's reputation.

Meanwhile, compliance teams should look to adopt a more flexible and nuanced approach. While it's essential to maintain high standards, they should also explore innovative solutions to onboard legitimate merchants, even if they present unique challenges. By working closely with sales, compliance can identify opportunities to mitigate risk without compromising growth.

Ultimately, a successful payments business requires a delicate balance between risk and reward. By fostering collaboration, these businesses can unlock new opportunities while protecting their reputation and ensuring long-term sustainability.

INTELLIGENT RISK MANAGEMENT

Striking the right balance between risk mitigation and business growth is paramount. By adopting a strategic approach to risk management, retailers can unlock new opportunities while safeguarding their operations.

A strong foundation for compliance is essential. By fostering a culture where risk and compliance are understood and valued by all employees, companies can ensure adherence to regulatory requirements and minimize potential liabilities. Clear and effective communication is key to building this culture, and educating merchants on the importance of compliance can facilitate smoother onboarding.

Automation can streamline certain aspects of the onboarding process, but human oversight remains crucial. Automating routine tasks can improve efficiency, but critical decisions should always be made by experienced professionals. By combining the power of technology with the judgment of experts, companies can strike the optimal balance of speed and accuracy.

Effective risk management considers all potential risks, including financial, operational, and reputational. Ultimately, the goal is to create a sustainable and profitable business model that balances growth with risk. By understanding the nuances of risk and compliance, companies can navigate the complexities of the payments industry and emerge as industry leaders. DT

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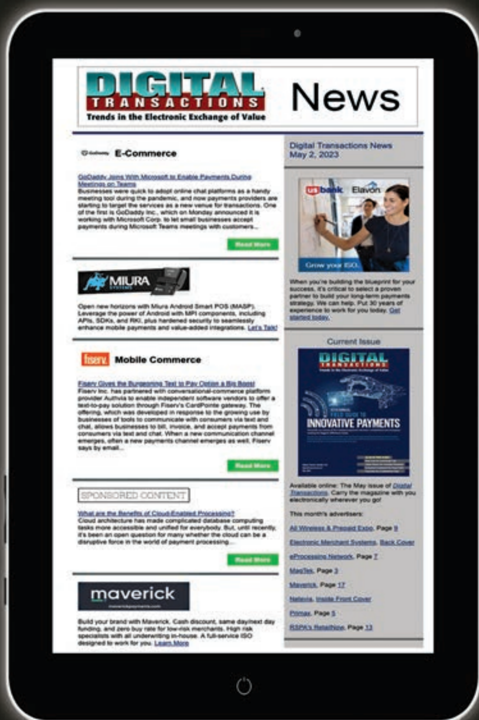

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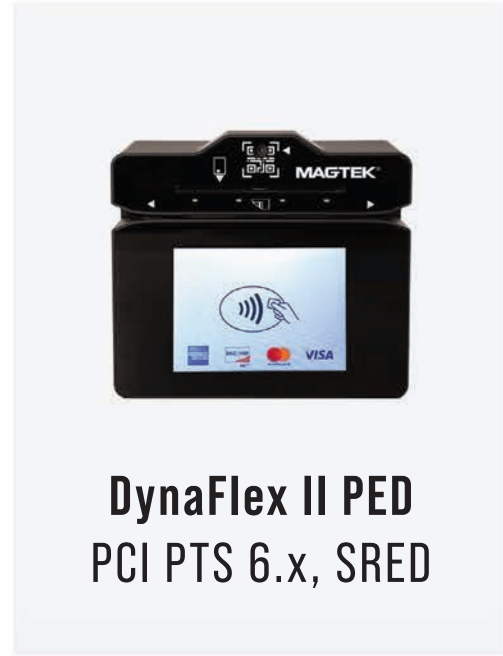

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