DIGITAL TRANSACTIONS

Trends in the Electronic Exchange of Value

The Future Card

Spoiler: It may not always be a piece of plastic or metal you dip or tap.

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contents

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Cover Photo: 123RF

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the gimlet eye

CRYPTO? YOU CAN BANK ON IT

CRYPTOCURRENCY—OR, as some prefer to call it, digital currency—has always carried with it a whiff of illegitimacy, as if something nefarious is going on with those blockchains. There's no substance to any of this, but the companies that manage the business are nonetheless keen to advance crypto into the mainstream of payments. Not for the sake of legitimacy but for the sake of profit growth.

In that light, it came as no surprise last month when Circle Internet Group Inc. said it wanted to start a bank. Founded in 2013, Circle has grown into one of the most prominent players in digital currency, most especially in stablecoins. And, as chronicled by this magazine and other sources, stablecoins have stolen the headlines lately as mainstream players look to adopt the tokens, which are digital representations of fiat currencies like the dollar. As we went to press, the House of Representatives was on the brink of sending to the President a bill that would set out clear rules for stablecoin commerce.

Circle has applied to the Office of the Comptroller of the Currency to form a national trust bank, specifically, the First National Digital Currency Bank N.A. The effort appears to be the first by a front-rank cryptocurrency issuer in the U.S. market and represents only the latest move by a digital-currency firm to bring crypto money into mainstream financial services.

If approved, the bank will oversee Circle's management of the reserve for its USDC stablecoin under oversight by the Office of the Comptroller of the Currency. It will also offer custody services for digital assets offered by institutional customers, Circle says.

With its own bank, "we will align with emerging U.S. regulation for the issuance and operation of dollar-denominated payment stablecoins, which we believe can enhance the reach and resilience of the U.S. dollar, and support the development of crucial, market neutral infrastructure for the world's leading institutions to build on," said Jeremy Allaire, Circle's cofounder, chairman, and chief executive, in a statement at the time.

Circle's move to start a bank is not the first by a digital-currency player, but represents a major step toward establishing stablecoins as a widely used and accepted form of money. Still, moves toward forming a bank have been relatively rare among cryptocurrency issuers and exchanges, and the process can take years. Anchorage Digital formed Anchorage Digital Bank in 2021. Paxos applied for a national banking charter in the same year and won conditional approval from the OCC, but its application expired in 2023.

It's clear crypto—or, at any rate, stablecoins specifically—are moving close to mainstream interest and, ultimately, mainstream use.

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trends & tactics

QR CODES MAKE A REAL TIME SPLASH

QR code payments have taken a big step towards becoming not only a mainstream payment option but also one that can accelerate the adoption of real-time payments. Early last month, the technology was used to facilitate a transaction over the FedNow network using the X9 standard.

The demonstration transferred funds in one second from a credit union to a Top 4 bank in the United States. During the test, a bill was presented to a payer with a merchant-generated QR code. Upon scanning the code, the payer authorized the transaction via the mobile app offered by the payer's credit union.

Assisting in the transaction was technology from Matera, a fintech specializing in instant payments and QR code technology. Also involved were Tyfone Inc., a digital-banking and -payments platform provider, and real-time payments provider Payfinia Inc., a Tyfone company. The test comes as the volume of real-time payments has been climbing fast since FedNow's debut in July 2023 (chart).

"This development unlocks the last mile of real-time payments," Matera chief executive and co-founder Carlos Netto says by email. "It opens the door to a broad range of use cases, bill payments, in-store payments and ecommerce, all initiated by QR code and settled in real time."

On a broader scale, the transaction shows that "financial institutions can offer a modern payment option where they control the experience, reduce costs, and deliver funds instantly," Netto adds. "Ultimately, this payment QR Code can accelerate the adoption of instant payments."

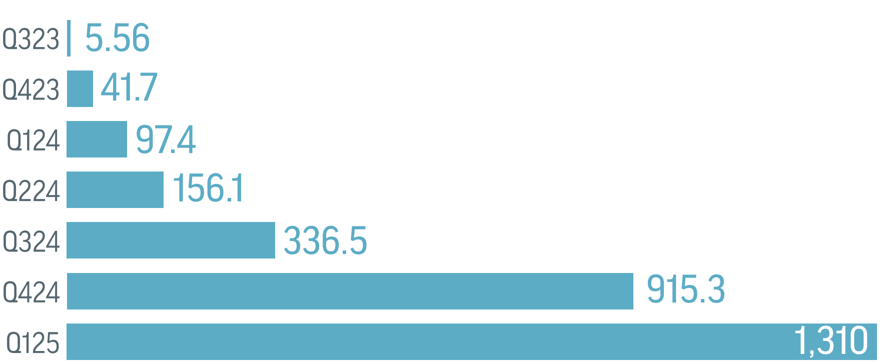
QR codes for payments are already mainstream in such countries as Brazil, China, and India. Now, "in the U.S., we're seeing accelerating interest, especially for bill payments, restaurant tabs, and one-time purchases," says Netto.

Key to making the transaction possible was the X9 payment QR code standard. Developed by the Accredited Standards Committee X9, the X9 standard introduces a common language for encoding payment data in "a secure, structured, and extensible way," according to Matera.

As a result, a single QR code can work across multiple networks, such as FedNow as well as the automated clearing house and The Clearing House's RTP (Real Time Payments) network. It can also work

REAL TIME PAYMENTS ON FEDNOW

(Number of transactions by quarter, in thousands)



Source: FedNow

with different banks. The standard supports multiple use cases, such as consumer-to-business, business-to-business, and peer-to-peer payments.

"That flexibility is key, because it allows billers, merchants, and financial institutions to adopt one consistent QR format while routing the payment over the [network] rail that best fits the transaction," Netto says.

Prior to development of the X9 standard, QR code implementations were fragmented, proprietary, or limited to closed-loop systems. "The X9 payment QR code standard is the missing piece that brings interoperability and scalability to instant payments in the U.S.," Netto adds.

Enabling consumers to scan a QR code and pay using their existing banking apps provides frictionless entry into instant payments, as there is no need for consumers to download a new app or sign up for a wallet, observers say.

"We delivered a production-ready, QR-code-based instant-payment experience [that is] more than four times faster, simple for users, seamless for institutions, and built to work with any digital-banking platform or digital wallet," Payfinia general manager Keith Riddle says by email.

Long-term, the X9 standard is expected to enable innovation while maintaining consistency, trust, and interoperability by allowing banks, credit unions, and fintechs to offer real-time pay-by-bank services using existing network rails, observers say.

"We're entering a new era where instant payments aren't just fast, they're intuitive, embedded, and scalable within digital banking," Tyfone chief executive Siva Narendra says by email.

— Peter Lucas

PAZE LINES UP PAYFINIA TO EXPAND ITS DIGITAL WALLET TO CREDIT UNIONS

Paze, the digital wallet from Early Warning Services LLC, is working with Payfinia, a unit of banking-services provider Tyfone Inc., to expand its reach.

Payfinia, formed by Tyfone in 2024 to provide real-time payments technology, has helped line up Star One Credit Union, a Sunnyvale, Calif.-based financial institution, to provide Paze access to Star One's 132,000 members.

Announced in 2023 and made available in 2024, Paze is a digital wallet that consumers opt in to. With issuer participation, Paze can automatically load a consumer's credit or debit card information once he or she enrolls, which can speed up the online-checkout process at participating merchants.

Paze also contains the consumer's billing and shipping addresses. Paze eliminates the need to share the actual card number with merchants, which can help prevent fraud should the data be breached.

The integration with Payfinia will mean credit unions and community banks will have an easier path to adopt Paze, says Eric Hoffman, chief partnerships officer at Scottsdale, Ariz.-based Early Warning. Payfinia's position with its clients and its technology will help extend the reach of Paze, he says.

"Our vision is to transform the online checkout experience, making it as easy and seamless as possible for all consumers. Partnering with Payfinia edges us closer to our vision of having all U.S. banks and credit unions Paze enabled so that Paze is an option for all consumers when shopping online," Hoffman says in an email to *Digital Transactions*.

Expanding Paze's availability has been an important objective at Early Warning. Paze launched with as many as 150 million credit and debit cards from seven large banks in 2024, with Bank of America Corp. among them.

Early Warning has been steadily broadening the availability of Paze, a goal helped by a 2023 integration with Endava plc, a software-development firm, and one earlier this year with processor Fiserv Inc., which said it would make Paze available to its financial-institution clients. Fiserv also will support Paze across its e-commerce platforms. Worldpay also says it is supporting Paze.

Star One cardholders will enroll in Paze in the same way as others have with other banks, Hoffman says. Consumers can activate a Paze wallet through their financial institution, which is the preferred way, he says, or during the merchant-checkout process. Both methods require authentication, and enrollees will be asked for additional information to ensure their identities.

Building consumer awareness also is important, Hoffman says. "It's not about just launching a brand—it's about launching a change in behavior," he says. "Paze is solving a long-standing problem—manual card entry. We've made strong progress, and partnerships like Payfinia and the recently announced partnerships with Worldpay (Worldpay is a reseller to merchants) and Fiserv (Fiserv is both a reseller to merchants and will be enrolling their financial institutions to participate in Paze) help to accelerate the next chapter.

"Looking ahead," he adds, "our biggest opportunity is driving consumer adoption & habituation—getting consumers to choose Paze the first time and every time thereafter when they check out online."

— *Kevin Woodward*

FISERV WILL WORK WITH CIRCLE ON STABLECOIN PRODUCTS

Fiserv Inc. and Circle Internet Group Inc. in late June announced they will collaborate to build products based on stablecoins for banks and merchants in Fiserv's client base. The announcement came at the same time Fiserv said it plans to launch its own stablecoin, FIUSD, by year's end.

Simultaneously, Fiserv said it will work with PayPal Holdings Inc. to develop a link between FIUSD and PayPal's stablecoin, PYUSD, to enable transactions globally.

Fiserv's collaboration with stablecoin issuer Circle creates one of the strongest initiatives yet to issue and support stablecoins, which are digital coins whose value is tied to a national fiat currency, such as the dollar. It comes as companies long associated with traditional finance eye stablecoin acceptance and issuance and as Congress mulls legislation to regulate the nascent stablecoin market.

The move from Milwaukee-based Fiserv—one of the payments industry's biggest processors—also comes as major payments players hear from clients and financial institutions looking to develop products and services related to stablecoins. "We came out with FIUSD because we recognized the demand we've had from financial institutions, fintechs, and enterprise merchants," says Sunil Sachdev, head of embedded finance at Fiserv.

With stablecoins, "we feel much more comfortable we can develop a platform compliant with existing regulations," Sachdev says, in contrast to cryptocurrency not tied to fiat money, such as Bitcoin.

That link to the value of fiat money, he says, gives banks and other players a level of comfort regarding risk. "What we're looking to do is create certainty, to build a platform where we can launch on-chain financial services," he says. Many plans, he adds, are in flux. "We've got a lot going on right now," he adds.

Fiserv's action in the burgeoning stablecoin market is one of the first moves by a major payments player since a bill that would regulate the stablecoin market passed the U.S. Senate early this summer and has moved to the House of Representatives. Observers cite the legislation, known as the GENIUS Act, as a much-needed set of rules that can guide issuers and processors and offer reassurance regarding what players can and can't do.

The House, meanwhile, has developed its own set of stablecoin rules, the STABLE Act, setting up a move by both chambers to reconcile the two bills and draft a final act.

The advantage offered by stablecoins, observers say, is that their digital reflection of long-existing fiat currencies means compliance can be managed more easily than with other blockchain currencies whose values swing up and down daily. "We

MONTHLY MERCHANT METRIC

Total Gross Processing Revenue %

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 Households defined as households with **less than $5M in annual card volume.**

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

Household - Standalone Merchants are considered as a Household with one store and Chained outlets under a common ChainID are combined together and considered as one single Household

Total Gross Processing Revenue % - Sum of total discount, total transaction fee revenue and total other fee revenue divided by total volume

Q4'23	2.841%
Q1'24	2.854%
Q2'24	2.886%
Q3'24	2.921%
Q4'24	2.897%
Q1'25	2.924%
Apr'25 (T3M)	2.941%

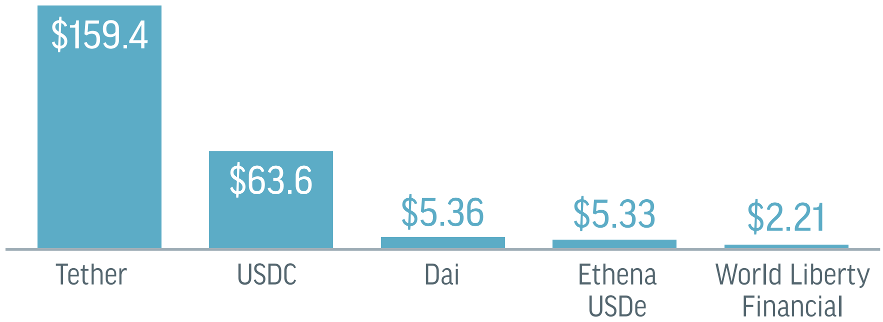
see stablecoins as a digital dollar," says Sachdev. "We feel much more comfortable we can develop a platform compliant with existing regulations with speed, efficiency, and transparency."

For now, Sachdev says Fiserv is focused on establishing and expanding its relationships with Circle and PayPal. "We're excited about the opportunity," he says. "We feel we have the right to win."

— *John Stewart*

TOP 5 STABLECOINS BY MARKET CAP

(In billions)



Note: Ranking as of July 12. Source: Coinmarketcap

A U.K. REGULATOR'S INTERCHANGE OBSTACLE FOR MASTERCARD AND VISA

A ruling in the United Kingdom could imperil the validity of multilateral interchange fees in the United Kingdom and Ireland assessed by Mastercard Inc. and Visa Inc. A U.K. tribunal at the end of June ruled the fees infringe on competition law.

The Competition Appeal Tribunal ruled the fees infringe on prohibitions to restrict, prevent, or distort competition within the European Union. Multilateral interchange fees (MIFs) are levies a merchant's bank pays to the issuer of a consumer card when a payment card transaction is made, according to the BEUC, a European consumer organization.

Though the United Kingdom left the European Union in 2020, it continues to follow many EU laws. The June ruling applies to the United Kingdom and Ireland.

The decision was welcomed by Scott+Scott, a London law firm representing merchants in the case, saying the judgment equates the MIFs "to a non-negotiable floor to the Merchant Service Charges which merchants have to pay to the bank that processes their card payments." Scott+Scott says the MIFs are imposed by Visa and Mastercard on acquirers, who have to pay it, and who pass the cost along to merchants, "who are powerless to negotiate it."

Both card brands took issue with the judgment. Mastercard says in a statement to *Digital Transactions* it strongly disagrees with the ruling, which it calls a "deeply flawed decision." It says it will seek permission to appeal. Visa also disagrees with the ruling and expects to appeal.

The ruling is not good for the brands, suggests Eric Grover, principal at Intrepid Ventures, a Minden, Nev.-based consultancy. "Clearly the U.K. CAT's ruling that multilateral interchange fees violate competition law is bad for Mastercard and Visa, and bad for the payments ecosystem," Grover says by email.

"Part of the value of the payment network comes from interchange fees funding cardholder value and issuer innovation," Grover adds. "The CAT decision envisions all interchange fees potentially being bilaterally negotiated, which would be unwieldy and diminish total network value."

Both Mastercard and Visa have long argued interchange plays an important role in payments. "It funds innovation and ensures people and businesses continue to pay and get paid quickly, easily, and securely," the Mastercard statement reads.

Visa, in its statement, says "interchange is a critical component to maintaining a secure digital-payments ecosystem that benefits all parties, including consumers, merchants, and banks."

The latest ruling emerged from the first of three expected court cases on the matter. Expected later this year, according to Scott+Scott, is a ruling on pass-on, defined as whether or not merchants or customers suffer harm from the fees.

A third issue, which has not been litigated, could challenge whether Mastercard and Visa can impose scheme fees on merchants. Generally, in Europe, scheme fees are paid by acquirers to the card brands, as explained by processor Worldline.

— *Kevin Woodward*

BUYING A DOLLAR FOR EIGHTY CENTS

BY
GIDEON
SAMID
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I CHALLENGE YOU to make sense out of the title of this column! It is a vision of the near future, discounted dollars for sale. The catch: you pay 80 untethered cents to buy a tethered dollar.

What does it mean? The government offers the public a chance to pay with nominal dollars, which are untethered to any condition of use and have no expiration date, and get in return more dollars that are tethered to some terms of use. This is a transaction that empowers money to fashion the economy and society to conform with government policy. It's where digital cash makes the biggest splash.

Here's an example: a certain state government would like to see light industry built in a particular area. The state will declare that a preset amount of money is available "for sale" at 80 cents on the dollar. The purchaser really buys claim checks for the discounted dollars. These claim checks can be paid forward per their nominal (not discounted) value. And the recipient can keep paying these tethered dollars for their nominal value.

But when the current owner of these claim checks tries to redeem them per their nominal value, he or she must show that he or she earned this money for constructing, or servicing the construction of, light industry in the designated area. The tethered dollars can also come with an expiration date to ensure that the government's policy is carried out in a timely manner.

Trying to use these dollars in a casino won't work, since the casino cannot redeem these dollars as they don't meet the condition of redemption.

For the issuing government, the discounted dollars represent investment. Traditionally, governments will give out grants, or reduce taxes, for which the entrepreneur has no risk and hence limited incentive. The purchaser of the discounted dollars spent 80 cents on each of them. This puts market forces in play as purchasers sustain a risk. If they don't pay these discounted dollars to a qualified recipient who can redeem them for untethered money, then by the expiration day they lose their value.

The government will use competitive pressures to minimize its liability. It will first offer a 5% discount for these tethered dollars. If there are not enough buyers, the government will offer a larger discount, and so on until there are enough buyers. Successful buyers will make money from constructing the light industry *per se*, and then make more money through the discounted purchase.

Government-issued tethered money will be used for research and development in areas the government wishes to promote. Venture capital will have to supply the purchase price.

There is a lot of room for creativity in how to exactly tether the discounted dollars. Once the plan is fully implemented, the government will have a smooth, frictionless, fast-moving tool to leverage the private sector in favor of society at large.

Tethered money is not limited to governments. Advocacy groups can readily use it to steer private money for a cause. Commercial entities will use tethered money in more and more creative ways. A shopping center will offer discounted dollars, which will have to be used, say within three months, for purchases in any store in that center.

As AI engines become more and more sophisticated, they will fine-tune the terms for discounted money, the amount discounted, and the rate of discount. Money will become a much better chisel to carve out a growing, equitable economy.

Assorted applications and thorough explanations of this concept may be found in my book, "Tethered Money," published by Elsevier. DT

A LIGHTER TOUCH DOESN'T MEAN YOU CAN IGNORE REGULATORS

BY BEN JACKSON
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THE PAYMENTS INDUSTRY expected the new administration to bring with it a wave of deregulation, but the reality seems to be a little different from the expectation.

Under the leadership of Russell Vought, Consumer Financial Protection Bureau has withdrawn 67 guidance documents since January. This includes eight policy statements, seven interpretive rules, 13 advisory opinions, and 39 other guidance documents. An overdraft-fee cap and digital-payments apps oversight rules were overturned by the Congressional Review Act.

The Bureau also tried to withdraw its open-banking rule, but it is currently facing a court fight with the Financial Technology Association over that.

So, the new administration has done work to make compliance easier for financial-services companies. But at the same time, the rollback has not touched any existing regulations. For example, the prepaid final-accounts rule still requires every purchaser of a prepaid card to get three separate pieces of disclosure – a short form, a long form, and the terms and conditions – before they can get the card.

To be fair, the Administrative Procedure Act sets out requirements for any rules that an agency wants to promulgate. Proposed rules must be published in the Federal Register at least 30 days before their effective date, and the agency must give the public the right to participate in the rulemaking by commenting on the rules. It then must take those comments into consideration before adopting a final rule.

While the law does not specify how long a comment period must be, the agencies do need to allow time for both public comment and review. The regulatory agencies have varied the allotted times for comment periods based on how large and complex the proposed rules are. They have also extended and reopened comment periods when a proposed rule has drawn a ton of interest from the public. Usually, an extended comment period will result in an extended time between the proposed rule, the final rule, and the effective date.

The question is whether there are any plans for new rulemakings to restructure or roll back any existing rules. The signs suggest this is not at the top of the list for the administration.

Remember that in February the CFPB ordered its workers to stay home and stop all work unless approved by the administration or required by law. In the recent budget bill, the bureau's budget was cut in half. The Administration has tried to cut about 1,500 positions at the Bureau and reduce the staff to about 200. This may cause some in the industry to cheer, but there is a downside. Who will be left to rewrite the regulations?

As I noted in a column earlier this year, rules that remain on the books could become fodder for state regulators and plaintiffs' attorneys who may look to step into the gap left by federal regulators.

Also, every regulation that goes unchanged is one that could come back to haunt the industry if things change after the next election, or if there is a crisis that leads the current administration to believe that enforcement needs to be stepped up. Remember that under the first Trump administration, there were more enforcement actions than under the Biden administration.

The industry should continue working with the regulators and Congress to make sure the regulatory environment is sensible while also protecting consumers. Instead of assuming that now is a time when Washington can be safely ignored, the industry should increase its engagement. That way, the industry can make lasting changes while not risking a return to the status quo that existed before the current administration. DT

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HERE'S THE REAL REASON INTERCHANGE RATES ARE AT RISK

Merchants are right to dispute what they pay for card transactions. Technology has an answer—if the networks will listen.

BY CLIFF GRAY

Cliff Gray is principal at Gray Consulting Ventures LLC

INTERCHANGE IS THE foundation of branded-payments theory: Remove friction at the register for increased sales traffic, at the risk of higher fraud. Yet, despite decades of fraud-fighting tech and policy wins, interchange rates remain defiant and unchanged. Now, given the abundance of alternative payment choices available today, the dominance of branded payments may be on the verge of a systemic shift.

The interchange model has been around for more than a century. Early examples included American Express and Western Union. Arguably, the first modern credit card was created by Diners Club in the 1950s. All of these cards were based on the premise of engaging more merchants with more consumers.

By the 1970s, balanced against fraud losses, credit risk, customer service costs, and settlement float, credit card issuers had settled into the classic 1.5% interchange rate for card-present transactions. By the early 90's, the market was still dealing with call-center approvals and card numbers jotted on Post-It notes, so that rate remained justifiable.

That was then. Today, it's EMV, tokenization, and semi-integration. These technologies have slashed card-present fraud by at least 70%. Globally. So why haven't interchange rates followed suit?

Since the EMV liability shift in the U.S. market in 2015, card-present fraud at physical point-of-sale terminals has dropped significantly. According to Visa, counterfeit fraud at EMV-enabled merchants fell by three-quarters within the first five years, as chip cards rendered traditional card-cloning techniques ineffective. Some estimates put current issuer losses on EMV transactions at 10 basis points at most. EMV quickly proved especially effective as a fraud deterrent, yet card-present interchange rates didn't budge.

The fraud didn't go away, it simply shifted channels to e-commerce, further validating the effectiveness of EMV. And still, card-present rates didn't budge.

Now, in 2025, EMV has become effectively ubiquitous. Network tokens and smart-phone wallets are rendering card numbers moot. Yet, still, card-present rates haven't budged.

THE MAGSTRIPE ENIGMA

You can't talk about EMV and not talk about the magstripe. That U.S. policies continue to allow the acceptance of magnetic stripes remains an unavoidable contradiction. It's a bit like installing a deadbolt on your front door while leaving the key under the mat.

Australia, the European Union, and Canada have all been under EMV mandates for a decade or more, with magstripe fallback severely sanctioned if not forbidden outright. Brazil went all in from the start, mandating chip & PIN more than two decades ago. Their aggressive approach to EMV has resulted in some of the lowest fraud rates planetwide.

Both Mastercard and Visa have announced long-term plans to phase out the magstripe, Mastercard in 2021, Visa following suit shortly thereafter. Both plans have a 10-year duration that ultimately will put U.S. card-present fraud controls at the same level as other regions.

Neither network has displayed any significant action so far. That's significant, given the striking difference between this industry migration and others. Real EMV penetration took years because it required merchant investment in new hardware. Magstripe acceptance doesn't require any new hardware, or even software for that matter. Issuers would simply stop printing a magstripe on the back of their cards and also stop accepting magstripe fallback during authorization. Just like they're already doing in other regions.

From any perspective, it's a strategy that's tough to argue with. The issuer saves money on fraud losses by saving money on physical card issuing costs.

Until issuers and the networks fully embrace EMV and abandon magstripe outright, outdated and obscure fraud assumptions will remain the justification for bloated interchange rates. Simply put, it's difficult to reduce card-present risk when a fraud vector is printed on every card.

ALTERNATIVE RAILS

As merchants increasingly chase cost savings through alternative payment methods, this is not the time for Visa and Mastercard to assume they remain the go-to solution for all things payments. Many of these alternative rails come with cheaper transaction costs and ignore traditional interchange models. For merchants, this can be especially effective in arenas where instant authorization is not necessary, such as recurring and business-to-business payments.

Classic automated clearing house transactions—and more recently FedNow, RTP, and wallet-based account-to-account methods—are all enjoying growth from merchants converting from branded payments to these more practical solutions. PayPal and Zelle have been gaining traction for years, and continue to enjoy positive growth.

It shouldn't be ignored that change is coming from within as well. The very banks that make up the branded networks are readily embracing the more intimate bank-to-bank rails that skirt network regulations and overhead.

Even cryptocurrencies are becoming increasingly viable, as a number of stars have finally aligned for decentralized payments:

- Importantly, the introduction of stablecoins has eliminated the funds volatility that has throttled any real commercial adoption of cryptocurrency;

- Similarly, the dollar-for-dollar simplicity of USDC and similar stablecoins removes operational complexity for merchants, easing the decision to implement;

- From a development and integration standpoint, the rails are already in place, since crypto runs on standardized protocols that most systems already speak;

- Given that major platforms like Stripe, Shift4, and Block already support Bitcoin and Ethereum, enabling USDC and other stablecoins is less about new code and more about adjusting configuration parameters and risk policies;

- Consumer-to-merchant interaction is via QR code, presenting no more friction than an EMV tap, and many POS devices are already QR-capable, mitigating hardware adoption challenges;

- The current administration is crypto-friendly, which should minimize regulatory challenges and further ease merchant hesitation.

And a resurgence of closed-loop payment solutions is yet another threat to interchange processing. Major retailers including Amazon, Walmart, and Target are increasingly building or expanding closed-loop payment systems and embedded-finance offerings. Starbucks and Apple Pay Cash are proving how non-card payments can become deeply embedded. Proprietary wallets, buy-now-pay-later (BNPL), and even bank-like services add customer stickiness, and lessen merchants' dependence on branded payments.

A threat to interchange greater than merchant pushback may emerge from consumers themselves. Surcharging is raising eyebrows as consumers learn it will cost money to use their credit cards. Merchants are figuring out quickly that, while pushback doesn't always work, passing on costs does.

Talk about friction at the register. Giving consumers and merchants good reasons to use alternative payment methods is a potent threat that the networks should be concerned about. The potential for rising inflation in the coming years can only exacerbate this challenge.

CHALLENGING THE RULEMAKERS

Until the networks reassess and reassign card-present interchange rates, merchant economies have no choice but to opt for change. Large retailers and trade groups are escalating demands for legislative scrutiny and network fee audits. Increasingly, merchants are implementing routing alternatives like ACH & RTP, closed-loop systems, and other out-of-band solutions.

The more volume that is diverted or publicly challenged, the greater the pressure on issuers and networks to justify outdated, unscrutinized interchange rates. Like it or not, the path of least resistance always wins.

To avoid the risk of becoming an alternative payment themselves, card networks need to abandon the one-size-fits-all interchange model and embrace a dynamic, risk-based approach that reflects real fraud exposure. Precedents for this already exist: enhancing Level III transaction detail earns lower rates; regulated debit rates acknowledge capped risk.

Flat pricing models have proven effective in more than just ACH frameworks, and hybrid models are proving effective at removing intermediary friction. Future rate models must reward security and transparency. The status quo must be exposed for its archaic reasoning, so interchange can evolve into a system that charges based on actual risk and real value.

As with any revolution, it's the downtrodden that challenge the rulemakers. Merchants, independent sales organizations, and independent software vendors are already leading the charge against legacy interchange rates—because the networks have chosen inaction. Technology has solved for fraud. What's left is to solve for the cost of that security.


Gray

Gray: "Giving consumers and merchants good reasons to use alternative payment methods is a potent threat that the networks should be concerned about."

DESPITE NEW SAFEGUARDS, CHARGEBACKS ARE RISING

As fraudsters' tactics grow more sophisticated, merchants must fight back with a combination of vigilance and better technology—including AI.

BY **MONICA EATON**
Monica Eaton is the Founder and CEO of Chargebacks911 and Fi911.

CHARGEBACKS ARE currently the worst they have ever been for merchants. As Chargebacks911's annual Cardholder Dispute Index shows, there was a staggering $65.21 billion in chargebacks last year in the U.S. alone, with an average of 5.7 claims per cardholder, each valued at $76.

This significantly impacts merchants' costs when inflation is high and margins are tight, causing a vicious cycle of increasing prices, damaged customer relations, and more disputes. Variables like unrecognizable billing descriptors and convoluted return processes emerged as the key reasons for consumers to file disputes. However, Visa has suggested that up to 75% of all chargebacks are "friendly fraud," meaning that there is a desperate need for merchants to fight back.

In a recent announcement to its members, the Merchant Risk Council (MRC) is sounding the alarm on a troubling trend: a significant rise in organized fraudulent chargeback claims, often referred to as friendly fraud. Over the past several months, merchants have reported a major spike in these attacks, resulting in "significant financial loss" across various sectors, according to the MRC.

With word spreading on how consumers can take advantage of the chargeback system, friendly fraud will have a major effect on the "Golden Quarter," when chargebacks are always exceptionally high.

As a leading authority in dispute management, I'm here to offer insights on how merchants can protect themselves against friendly fraud and an increasingly hostile commercial environment.

UNDERSTANDING THE SPIKE

According to both our own studies and the MRC's recent advisory, there has been a marked increase in refund-policy abuse, first-party misuse, and overall chargeback volumes. This rise isn't entirely unexpected, given the already upward trend of online shopping and card-not-present transactions. According to Chargebacks911's 2024 Chargeback Field Report, 72% of surveyed merchants reported an average increase of 18% in the friendly fraud cases they received.

This spike suggests that while some chargebacks are still filed in error, many malicious consumers and professional fraudsters are becoming more organized and sophisticated in their efforts to game the chargeback system.

One of the most concerning aspects of the current surge is the lack of a unique profile among the perpetrators, indicating that they are not individual consumers but rather professional outfits using automation.

This widespread abuse suggests that the fraud is not only systemic but possibly orchestrated through organized networks, possibly using fraud-as-a-service (FaaS) platforms. Fraudsters are exploiting loopholes across all card types, customer demographics, and merchandise categories.

Spikes like this are unpredictable, but there are times of the year when we know that there will be major surges in chargebacks. The "Golden Quarter" that runs from Black Friday through to the holidays and the months immediately following is the most significant period, and can put major dents in a merchant's profits.

According to Adobe Analytics, 2024's Cyber Monday hit a record $13.3 billion in sales, supplanting Black Friday as the single busiest shopping day of the year. With the majority of holiday shopping this year taking place online, where chargebacks are more prevalent, we could see a correlated rise in disputes, and profits from holiday shopping being leeched away.

SOPHISTICATED SCAMS

The MRC announcement highlights several advanced techniques being employed by organized criminal groups and opportunists. These include falsifying documents and emails that appear to originate from within a merchant's company, such as fake customer service emails promising refunds or discounts.

Fraudsters are also using doctored photographs to claim that goods arrived damaged, prompting merchants to send out replacement products. Fraudsters on the dark Web term this technique "refund fraud." This abuse of the "goods not received" and "goods damaged" claims is particularly worrying, as it takes advantage of merchants' good-faith efforts to maintain customer satisfaction.

These scams are not just sophisticated. They are alarmingly effective. Merchants, following their established policies and procedures are often left with little choice but to issue refunds or send replacement products, only to discover later that they have been defrauded. The financial impact of these activities can be devastating, especially for small-to-medium-size businesses that may not have the resources to absorb such losses.

MERCHANTS MUST RESPOND

In light of this alarming trend, we have several recommendations for merchants that want to better protect themselves against the rising tide of fraudulent chargebacks. These include ensuring that existing key performance indicators (KPI), rules, and velocity checks are watertight.

For example, merchants should monitor metrics such as the refund rate, repeat refund requests, and the refund amount as a percentage of sales. These indicators can help identify patterns that may suggest fraudulent activity.

Also, we would advise merchants to re-evaluate their customer return policies and thresholds. Implementing verification steps can help reduce the risk of fraud, such as requiring more detailed proof-of-purchase or delaying refunds until products are returned and verified.

Lastly, we can't over-emphasize the importance of an active approach to fraud prevention. Because the consequences of chargebacks are often irreversible, addressing disputes before they turn into chargebacks is critical. In addition to reviewing policies, implementing tools like chargeback alerts can warn merchants of an impending dispute, giving them the opportunity to resolve the issue with the cardholder before the issuing bank elevates the dispute to a chargeback.

While these measures may seem cumbersome, they are necessary to safeguard against increasingly sophisticated fraud tactics. Merchants should also ensure that all relevant stakeholders, from customer service to finance, are informed and involved in the effort to combat friendly fraud.

ACTIVATING AI

I believe that evolving technology plays a crucial role in helping merchants stay ahead of fraudsters. Machine learning and artificial intelligence (AI) can be leveraged to detect anomalies in transaction data and identify potential fraud before it results in a chargeback. These technologies can analyze vast amounts of data in real-time, spotting patterns and behaviors that may be missed by human analysts.

One of the key protections that can help safeguard merchants from chargebacks is the ability to prevent them before they happen. Chargebacks are not always instantaneous—there can be a 48-to-72-hour delay before they are filed—and, in this time, a merchant could issue a refund rather than go through the much more expensive and time-consuming chargeback process.

This may mean that some people are given refunds that they don't deserve. But refunds will cost a lot less than trying to fight every chargeback, depending on the price of the transaction.

A CALL TO ARMS

The recent spike in fraudulent chargebacks is a clear warning that merchants cannot afford to be complacent. The tactics used by fraudsters are becoming more sophisticated, and the financial stakes are higher than ever. It is crucial that merchants take immediate action to protect themselves, their customers, and their revenue.

That said, we're committed to helping merchants navigate this challenging landscape. We urge all merchants to review our recommendations and implement the necessary changes to their fraud-prevention strategies.

By staying vigilant and leveraging the right tools and technologies, merchants can mitigate the impact of friendly fraud and ensure that their businesses remain secure. DT


Eaton

Eaton: "Merchants should ensure that all relevant stakeholders, from customer service to finance, are informed and involved in the effort to combat friendly fraud."

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POTENTIAL FALLOUT FROM THE CAP ONE-DISCOVER DEAL

Here's how the two parties can ensure a smooth and successful combination for the long term.

BY HOWARD HERNDON, JOHN ROMER, AND DEREK EDWARDS

Howard Herndon, Managing Director, Prescentus, LLC and Senior Counsel at Womble Bond Dickinson (US) LLP; John Romer, Managing Director, Prescentus, LLC; Derek Edwards, Partner, Womble Bond Dickinson (US) LLP

THE ACQUISITION OF Discover Financial Services by Capital One represents one of the largest financial services mergers in recent history. While the transaction has received regulatory approval and went into effect May 18, various stakeholders may experience adverse effects that could lead to disputes and litigation.

This article examines potential sources of conflict beyond antitrust concerns, focusing on affected parties and the nature of their potential claims.

Capital One's acquisition of Discover will create the largest credit card issuer in the United States by loan volume and the sixth-largest bank by assets. While the deal received approval, including from the Comptroller of the Currency (OCC), the integration of these financial giants will likely create disruptions across multiple fronts.

That could lead to conflicts, disputes, and litigation, such as those that have emerged following prior payments-industry mergers.

KEY STAKEHOLDERS, POTENTIAL CLAIMS

Although in its initial stages, the merger of Capital One with Discover's network—which can support enhanced debit and credit card acceptance capabilities for the combined companies—will unify (1) development and enforcement of card-acceptance terms and conditions, and (2) pricing for the new Capital One Discover program.

Associated modifications of contract terms, while necessary, could lead to breach-of-contract and other claims when for example:

- Merchants' fee structures or payment terms are unilaterally modified.
- Existing contracts with either Capital One or Discover are unilaterally modified.

Integrating Discover's and Capital One's operations will create risks for data security, customer services, and compliance systems. For example, the web of processing systems for the integrated card network, card-issuing system, and banking system necessary to support the new credit and debit card organization will be more complex.

There will be greater risks of outages and errors, including loss of processing capabilities, misdirected settlement funds, inadvertent authorization, and settlement processing outages that may cause disruptions for merchants and consumers alike.

Indeed, the OCC's conditional approval emphasizes the need for effective and sustainable corrective actions to address those likely compliance issues. Those could lead to breach of contract and other claims, including:

- Business interruption claims from merchants experiencing transaction delays.
- Disputes over responsibility for integration-related errors.

NETWORK ACCESS CHANGES

The network of combined companies will control the issuing and acceptance of cards, which will operate more like American Express than like Visa or Mastercard cards. The new network will be controlled by a dominant card issuer, able to develop terms and conditions, participation requirements, and acceptance requirements that are disadvantageous or discriminatory to other businesses that may seek to participate as an issuer or in another role in the new Cap One/Discover program.


Howard Herndon

This may lead to breach-of-contract and other claims, when for example:

- Independent payment processors face changed access terms.
- Third parties do not have full access to capabilities and advantages of the new network.

EXISTING BUSINESS PARTNERS

Discover has network-participation rules, operating terms and conditions, and membership agreements that dictate the requirements for participating in the network. The combined Capital One/Discover organization will have control over setting interchange rates and network fees that could benefit the new program, or disadvantage existing partners.

Existing business partners will likely experience changes in fees and acceptance requirements within Discover, which could lead to claims for breach of contract and other claims arising from, for example:

Contract Renegotiation Disputes

- Existing vendor relationships are terminated or modified.
- Early termination fees or penalties are imposed.

Exclusive Relationship Conflicts

- Partners with exclusive agreements face changed circumstances.
- The combined Capital One/Discover organization seeks to exit existing arrangements.
- Stakeholders invoke change-of-control provisions.

CARDHOLDERS AND CONSUMERS

The new organization will combine several sets of consumer clients, including current Discover cardholders and Capital One cardholders. Some cardholders may have cards converted from competing networks to the Discover brand, resulting in a change in network access, account terms and conditions, rewards, and other program features.

Customer service and program support resources could be combined or eliminated, resulting in changes in account support and other operating-support features. These circumstances could lead to class-action consumer lawsuits, for example when:

Account Terms Modification

- Reward programs, interest rates, or fee structures change.


John Romer

- Valuable card benefits are reduced.
- Cardholders claim inadequate notice of such material changes to account terms.

Privacy and Data Security Risks
- Data integration presents heightened security risks.
- Data security is breached during integration.
- Cardholders claim unauthorized sharing of consumer data between entities.

Service Quality Degradation
- Customer service is disrupted during integration.
- Cardholders claim account management errors during transition.
- Cardholders claim reduced service quality or availability.

MITIGATING FACTORS AND RISK MANAGEMENT

Changes to the card programs and network operations will not be immediate. However, the combined organization will face a number of hurdles. It must resolve issues identified by the OCC during its pre-acquisition review. In addition, several states have indicated they may challenge the acquisition despite conditional approval, and at least one consumer lawsuit has already been filed.

These are not expected to derail the merger, but highlight the need for the combined organization to proceed carefully, ensuring regulatory issues identified during federal review are resolved, avoiding further regulatory issues, and communicating effectively with consumer and business clients, network partners, and support vendors.

Communication Strategies should include:
- Transparent communication with all stakeholders about integration timelines.
- Clear disclosure of any changes to terms, conditions, and relationships.
- Dedicated channels for addressing concerns before they escalate to disputes.

Transition management should address:
- A phased integration approach to minimize disruption.
- Retention of key personnel during transition periods.
- Maintaining service levels during all phases of integration.

Contractual protections should include
- A review of change-of-control provisions in existing agreements.
- Negotiating amendments where necessary.
- Considering dispute-resolution mechanisms in new agreements.

While Capital One's acquisition of Discover has conditional approval, the transaction's size and complexity create significant risks of disputes between and among multiple stakeholders. Those may lead to litigation between business partners and consumer-protection lawsuits.

Derek Edwards

Proactively identifying and managing those risks will be essential to minimize such costly disputes and maintain stakeholders' confidence throughout integration.

By anticipating potential claims and implementing thoughtful transition strategies, the Capital One/Discover organization can reduce its litigation exposure while successfully integrating these two financial-services giants. DT

The Future Card

Spoiler: It may not always be a piece of plastic or metal you dip or tap.

BY KEVIN WOODWARD

More than 25 years ago, the U.S. automotive industry made its first notable move to hybrid-powered cars with the debut of the 2001 Toyota Prius. Now, the payments industry, specifically, the card segment, is well under way with its own hybrid adaptation of credit and debit cards for a digital world.

One of the first hybrid credit cards, the Apple Card issued by Goldman Sachs, debuted six years ago. Today, many issuers offer a strong digital component, with many able to issue a digital version to a mobile wallet prior to the arrival of the physical card in the mail.

This digital shift is changing the perception and use of cards, but it's not going to cause their demise. Instead, it may cement the card's position even more as a payment option, just with digital offshoots.

Evidence of this change is abundant beyond the Apple Card. One study, conducted by ABI Research for the NFC Forum trade group, found that in 2024 95% of respondents left their physical wallets at home in favor of a mobile wallet. Perhaps influenced by the gigantic increase in the adoption of contactless payments during the Covid-19 pandemic, consumers are much more accustomed to tapping to pay, something done equally easy with a credit or debit card or a smart phone.

Then there's the proliferation of smart phones, the ones that usually come with a mobile wallet. As of 2024, 91% of U.S. consumers own a smart phone, says the Pew Research Center. There's also the declining use of cash, which in 2014 accounted for 44% of global POS transaction value, according to the Worldpay Global Payments Report 2025. It decreased to 15% in 2024 and is forecasted to drop to 11% by 2030.

It's not just consumer payments patterns that are changing. Merchants, too, are adopting technology to align with how consumers prefer to pay. SoftPOS—using consumer-level devices with payment-specific apps and software—is gaining ground.

"As digital and mobile wallet adoption continues to grow, the role of physical credit and debit cards is also evolving—but not disappearing. Rather than becoming obsolete, physical cards are transforming to better align with changing consumer needs and emerging technologies," says Matthew Robinson, executive vice president of network and acquirer solutions at American Express Co.

'Emotional Touchpoints'

Cards themselves are beginning to change. Mastercard Inc. has made the magnetic stripe optional on newly issued credit and debit cards, with a plan to eliminate it from its cards by 2033. The security and authentication once provided by the data contained in the stripe has been surpassed by EMV chip technology and improved authentication tools. Tokenization of card data has helped, too. Network tokenization launched in 2014 and has transformed payments beyond the initial use case for tokens in mobile wallets.

The digital version of a credit or debit card will complement the physical card and vice versa, many observers say.

"At the same time, for many consumers, physical cards may still represent a reliable and widely accepted payment method, especially in places where digital infrastructure might lag or for certain use cases, such as ATMs," says AmEx's Robinson. "For certain types of transactions—such as travel, high-end retail, or luxury services—the transaction is often linked to the broader customer experience and human interaction plays a key role. In these scenarios, digital payments may not replicate the

Photos: 123RF

emotional or experiential touchpoints that customers value and expect."

Cards remain an important element in commerce. While cards one day may not be in use, that is a faraway possibility. (Most U.S. consumers have an average of 3.9 cards, according to credit reporting agency Experian.)

Indeed, in a closer time frame, say over the next 10 to 20 years, cards are unlikely to go away, says Tony DeSanctis, senior director at Cornerstone Advisors' payments practice. "Longer term, it is possible, but the likelihood is low that cards will be completely replaced," DeSanctis says.

Card manufacturers, too, are keenly aware of these trends.

"The way our clients see it is as a complement, the card and something else," Peggy O'Leary, executive vice president of prepaid and digital solutions at cardmaker CPI Card Group Inc., says of digital wallets and their electronic versions of payment cards. Littleton, Colo.-based CPI launched its push provisioning for digital wallets in 2022 to Apple Pay, Google Pay, Samsung Pay, and click-to-pay mobile wallets.

It's a similar take at Giesecke+Devrient, a Munich-based card and chip maker. "Physical cards will likely remain relevant for years to come, especially as a reliable alternative when digital payments aren't accepted or connectivity is limited," says Mark Van Horn, digital solutions lead in North America for Giesecke+Devrient. "The concept of 'phygital'—blending physical and digital experiences—continues to influence how financial institutions approach card programs."

And while issuers want to provide cardholders with digital options, physical cards still have a role for banks and credit unions, Van Horn says. "Physical cards also retain importance as recognizable brand assets and tangible tools for customer engagement," he says.

Winning Top of Wallet

In the non-digital days of payment cards, top of the wallet was a critical goal for issuers, entailing multiple marketing messages and incentives to get a cardholder to prefer one card over others so that card was the first visible card in a wallet. While top of the wallet remains the objective, what it means and how it's accomplished are changing.

"In some segments of the market, particularly among digitally native users, digital-only payment credentials are already becoming the norm," Van Horn says. "However, digital exclusivity isn't likely to be universal in the near term due to varying infrastructure, consumer preferences, and the continued utility of physical cards."

At CPI, O'Leary sees multiple aspects to this. "One is about speed to wallet," she says. When physical cards dominated, the process was about speed to the consumer. Yet, that remains critical in the digital age. Some issuers will provision a digital version of the card, much like Apple did when it launched its Apple Card in 2019. It was digital first, offering 3% cash back on purchases made with the digital version compared with 1% cash back on transactions made with the titanium Apple Card.

O'Leary says CPI has learned along the way that top-of-wallet status is just as important digitally. "Just because you're the preferred card in a wallet doesn't mean you're capturing all the spend when someone is paying digitally," she says. Push provisioning can be helpful in this because it not only shows innovation, but it presents an opportunity to make sure the consumer can spend from that account more quickly, O'Leary says.

Van Horn: "Digital exclusivity isn't likely to be universal in the near term."

Robinson: “Rather than becoming obsolete, physical cards are transforming to better align with changing consumer needs and emerging technologies.”

At issuing platform Galileo Financial Technologies, a company owned by SoFi Technologies Inc., top of the wallet means onscreen.

“The competition has moved from the physical wallet to the phone screen. Winning ‘top of wallet’ today depends on seamless digital setup, instant card updates, and ensuring your card remains the default, even if it’s replaced,” says Prashant Shah, Galileo vice president of product management.

The just-introduced Galileo Payment Method Switch enables clients to embed this service into their apps, letting customers update their payment method in seconds and helping issuers boost the visibility of their payment products, Shah says.

Others have similar services, chief among them are the Mastercard One and Visa Flexible credentials. These payment services enable consumers to switch their preferred digital payment method within an app. Mastercard launched its program in February and Visa in 2024.

These tools give further agency to what consumers already are doing, says David Shipper, strategic advisor at Datos Insights. “Our research shows that consumers are already switching between debit and credit based on the dollar amount of the transaction or merchant type, so these tools will make the mobile wallet more convenient and help consumers better manage their finances,” Shipper says.

As Galileo’s Shah says, “Visa’s Flexible Credential and Mastercard’s One Credential herald a future where a single credential can pull from debit, credit, or BNPL in real time—whichever best fits the moment. Because network partners are already updating token-management rails in the background, issuers won’t need a massive overhaul to adopt the model once it’s live.”

“The real shift,” Shah adds, “will be on the consumer side: instead of choosing a card at checkout, the customer can preset the funding logic, and watch it seamlessly execute during the transaction, which raises the bar on rewards engines, risk models, and UX transparency.”

The Age Factor

That day may be yet to arrive, but as Shah and others see it, it’s coming soon.

“In a traditional physical shopping environment, the payment method used most often was the one that was easiest to grab, which has lent itself well to cash and physical cards,” says Tony Allen, chief technology officer at Recurly, a subscription-management platform.

“But online and with the proliferation of contactless payments,” he continues, “competition is more nuanced. Alternative payment methods like BNPL, peer-to-peer payments, and digital wallets have made it incredibly easy for consumers to have their choice of payments based on which one offers the most value through rewards, personalization, and other perks—and issuers,

Piatt: “Despite the advantages, many merchants remain hesitant to adopt digital wallets.”

brands, and merchants want to be a central part of consumers' decision-making process."

Both Mastercard One and Visa Flexible Credential are tools designed to empower consumers to make their own payment choices. As younger consumers come into their prime earning and spending years, payment methods will adapt. For example, GenZ, those born between 1997 and 2012, embrace digital wallets and like having payment choice.

As Shipper says, age is an important factor when considering the future of card payments. "Age is the largest factor since younger consumers are more digitally savvy than older consumers. One could also argue a difference based on income since lower-income consumers may not have a smart phone that supports mobile wallets, or may be more likely to shop at a store that does not support contactless payments, such as Walmart," he says.

A Terminal Habit

Credit and debit card issuers need to remain alert to shifting consumer preferences, says Randy Piatt, vice president and head of product for digital card solutions at Fiserv Inc.

"One of the most critical factors influencing merchants' interest in digital wallets is the need to stay relevant with an evolving consumer base. With the high adoption rates of digital wallets, particularly among Millennials and Gen Z, retailers that embrace these technologies can better cultivate loyalty and engagement with these influential demographics," Piatt says.

Getting merchants onto the digital-wallet acceptance path could get easier as more consumers choose to pay with a digital wallet. As Piatt says, there are many benefits to digital-wallet acceptance, ranging from improved security, a quicker checkout online and in-store, and the potential to reduce abandoned shopping carts, an irksome issue for online merchants.

"However, despite the advantages, many merchants remain hesitant to adopt digital wallets," says Piatt. "A common barrier is the perceived need for significant investment to upgrade or replace existing point-of-sale (POS) systems, creating a roadblock to implementing these innovative solutions." One factor that should help is that mobile wallets at the point of sale use the same NFC technology that contactless cards rely on.

A physical card and its digital counterpart will coexist for many, many years. As consumers today live in a commerce world with more payment choices than ever, they will use whatever is convenient, however they may define that.

"Physical credit and debit cards aren't necessary for online or mobile transactions, as tokens allow consumers to pay with stored data," says Anthony Walsh, head of retail sales in the United States for point-of-sale terminal maker Ingenico. "However, with the majority of retail sales still occurring in physical stores, physical cards remain relevant. Inserting or tapping a card on a payment terminal is a habit for many consumers."

Still, Walsh adds: "Although paying with a physical card is prevalent now, digital wallets eventually may become the most popular payment choice among consumers, with physical cards as a secondary choice. Changes in consumer behaviors are always dependent on the payment technology that's available and the perceived value, like time savings or convenience, of using it." DT

O'Leary: "Just because you're the preferred card in a wallet doesn't mean you're capturing all the spend when someone is paying digitally."

Pointers for prepaid

endpoint

MAKING GIFT CARDS THRIVE

New data reveal how ease of access and thoughtful design drive gift card success.

BY TAMMY McGILL

Tammy McGill is director of market research at InComm Payments

IN TODAY'S BUSY world, convenience isn't just appreciated, it's expected. Whether we're ordering groceries, booking a ride, or sending a last-minute birthday gift, we want it done fast, easy, and without hassle. That's why gift cards have quietly become one of the most practical, versatile tools in the retail and payment landscape.

Once viewed as a fallback for forgetful shoppers, gift cards have earned their place as a go-to choice for consumers who value flexibility and speed. They're simple, often customizable, and increasingly woven into both everyday spending and special-occasion gifting. And, according to new data from InComm Payments' Gift Card Year in Review annual report, convenience is the driving force behind consumer decisions on what types of cards to purchase and where they prefer to buy them.

That means opportunity—not just for retailers, but for the entire payment ecosystem. The brands and platforms that make gift cards easy to find and purchase are better positioned to win consumer loyalty and boost sales.

RESEARCH RESULTS

Here are some of the insights from this latest report. They can guide payments companies, brands and retailers in working together to better serve gift card shoppers.

The report's key finding is that convenience is a primary driver of most gift card purchases. Among consumers who participated in the survey, 62% of open-loop gift card shoppers and 59% of closed-loop gift card shoppers listed convenience as the top factor influencing their decision to buy.

And when we say "convenience," that can mean a few different things to shoppers:

- **A convenient product:** Gift cards that are easy to buy, easy to give and easy to use.
- **A convenient retail location:** Gift cards are available at a wide range of stores.
- **A convenient shopping experience:** Gift card displays are in high-traffic areas.

High-traffic areas like checkout counters, promotional shelves, endcaps, and holiday displays are prime real estate. Visibility here turns routine shopping into a gifting opportunity. Online, it's all about digital visibility: home-page placement, search optimization, and checkout integration.

When gift cards are front and

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877-231-6609 | partners@signapay.com | signapay.com center—physically or digitally—consumers don't have to think twice. It's a small change that makes a big difference. And payment processors, brands, and retailers that view gift cards as a core offering are likely to see stronger performance and more consistent engagement. During the holidays, Mother's Day, or back-to-school, a well-placed, well-promoted gift card promotion can make all the difference in capitalizing on foot traffic or Web-page traffic.

And gift cards shouldn't just be convenient for the buyer. They should also be equally simple for recipients—easy to redeem, track, and spend, however they choose. That full-circle experience is what will keep people coming back for repeat purchases.

Sure, gift cards are clutch in a pinch. But a growing number of consumers aren't waiting until the eleventh hour. They're planning ahead, stocking up during promotions, and setting reminders for key holidays.

According to InComm Payments' report, 68% of gift card shoppers said they plan their purchases in advance. That's why, now more than ever, it's crucial that these thoughtful, forward-thinking shoppers can get the gift cards they want, when and how they want them.

KEYS TO GROWTH

For payment providers and their partners, this opens the door for smarter, more strategic engagement. A well-timed bonus offer, early-bird promo, or loyalty reward can be just the nudge a planner needs. And when it's easy to personalize a digital card or schedule delivery? Even better.

If you want your gift card program to grow, make it as easy and frictionless as possible. Here's where to start:

1. Make gift cards visible.
High-traffic displays in-store. Prominent placement online. Seasonal signage. Gift cards shouldn't be an afterthought.

2. Rewards planning.
Offer bonuses for purchases. Promote seasonal bundles. Tie gift cards into your loyalty program.

3. Enable collaboration.
From group gifting to shared balances, flexibility goes a long way. Simple tools for joint purchases can set your program apart.

4. Clarify the experience.
Be upfront about how to redeem, where to use, and how long cards last. No one wants to second-guess a gift.

5. Own your space.
Work with planogram experts to ensure arrangements properly align across main gift card aisles, checkout lane pegs, and departmental or seasonal displays. Make sure cards are easily seen as customers navigate high-traffic areas.

A PAYMENTS POWER TOOL

Here's the big idea: When it comes to gift cards, convenience matters. A lot.

Consumers are telling us what they want: flexible, fast, friction-free gifting. Now it's up to brands, retailers, and payment processors to meet them there. And when they do? Gift cards won't just thrive in a silo, they'll be a key driver of business.

After all, gift cards generate foot traffic. They spark incremental spend. They bring new customers into ecosystems and help ensure loyal ones return. When integrated thoughtfully, gift cards become part of a broader payments strategy, fueling promotions, loyalty, and branded experiences.

In a world where every moment matters and every click counts, the gift card stands out as a smart, simple solution. The challenge (and opportunity) for the payments industry is to make sure it's always within easy reach.

Convenience isn't just a nice-to-have. It's the reason people buy—and the reason they keep coming back. DT

Ready for Hospitality
Built for Security.

Elevate the guest journey with DynaFlex II Go, the latest in payment and non-payment solutions.

MAGTEK®
SECURITY FROM THE INSIDE

From check-in to check-out, streamline payments, access, and authentication with DynaFlex II Go and InVue's enclosures.

DynaFlex II Go Features

EMV/NFC Contactless
EMV Contact Chip
Magnetic Stripe Cards
Mobile Wallet Support
MIFARE® & NTAG®
Barcodes & QR Codes
NFC Card Emulation
USB, USB iAP2, Bluetooth LE
PCI PTS 6.x, SCR, SRED

Take Advantage of Magensa Cloud Services

Advanced Tokenization
Secure Gateway Services
AES-256 and TDEA
Reader Management
Seamless Integration

Learn More About
MagTek & Magensa's Hospitality Solutions

DynaFlex II Go is part of the MMS Dyna Device family with shared EMV Common Kernel technology for faster L3 certifications.

Images are simulations of what is possible. Please contact a representative to see how we can help bring your ideas into reality.

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