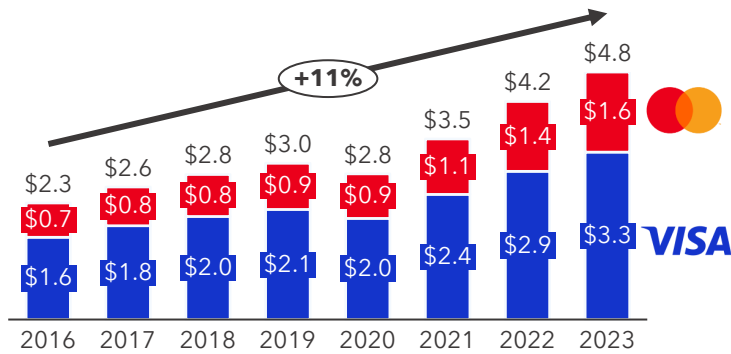


Reactions to Visa and Mastercard Credit Card Fee Settlement with U.S. Merchants

General Commentary & Highlights

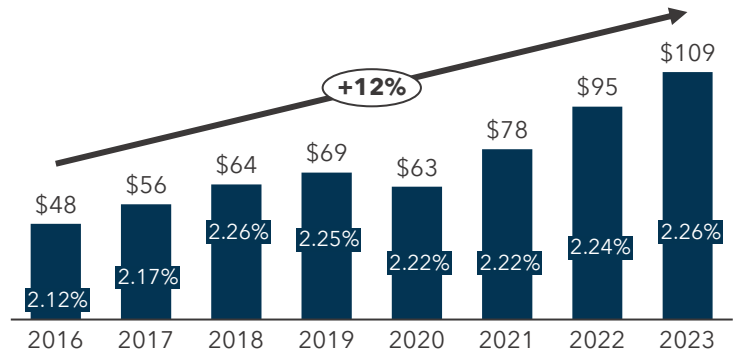
- Visa and Mastercard agreed to reduce credit card interchange fees and change some rules as part of a proposed antitrust settlement with U.S. merchants that could conclude 19 years of litigation and negotiation if approved.
- U.S. merchants have experienced **consistently rising card acceptance fees** for decades (**see Figure 2**), in part because of interchange fees driven by network competition for issuers and issuer competition via credit card rewards.
- The schemes agreed to lower published credit card interchange fees by **0.04%** for at least three years while ensuring that the average effective interchange rate (including posted rates and negotiated rates) is at least **0.07%** lower than the average for the 12-month period ending on March 31, 2024, for five years.
- According to the plaintiff's attorneys, the fee rollbacks and caps alone are worth \$29.8B. **Flagship's analysis expects \$27.4B** with less impact from fee rollbacks alone, but potential impacts from tender mix shifts (**see Figure 3**).
- Visa claims that SMBs comprise more than 90% of U.S. merchants, but **we expect large merchants to accrue most of the benefits** (who accept two-thirds of U.S. card volumes and receive IC+ pricing).
- Equally important, **the settlement effectively removes most of the V/MC restrictions on surcharging**, although for merchants to be fully unencumbered, certain states will also have to roll-back laws that restrict card surcharging (**see Figure 4**).
- Other notable rule changes include:
 1. Merchants may provide **discounts** (not surcharges) **based on the card issuer and/or product type**
 2. Merchant can choose to **accept or decline specific digital wallets** whereas previously V/MC required merchants to honor all pass-through wallets like Apple Pay at brick-and-mortar locations
 3. Merchants may now form **"buying groups" to collectively negotiate with V/MC on fees**
- **We see this settlement having modest impact on the total cost of accepting credit cards in the U.S. but a potential for meaningful change in the payment experience if surcharging becomes more common.**
- A 0.04%-0.07% reduction in interchange is **not highly disruptive to financial institutions** given the scale of their interchange revenue pool.

1 Est. US Credit Card Volume (in USD trillions, 2016-2023 CAGR)



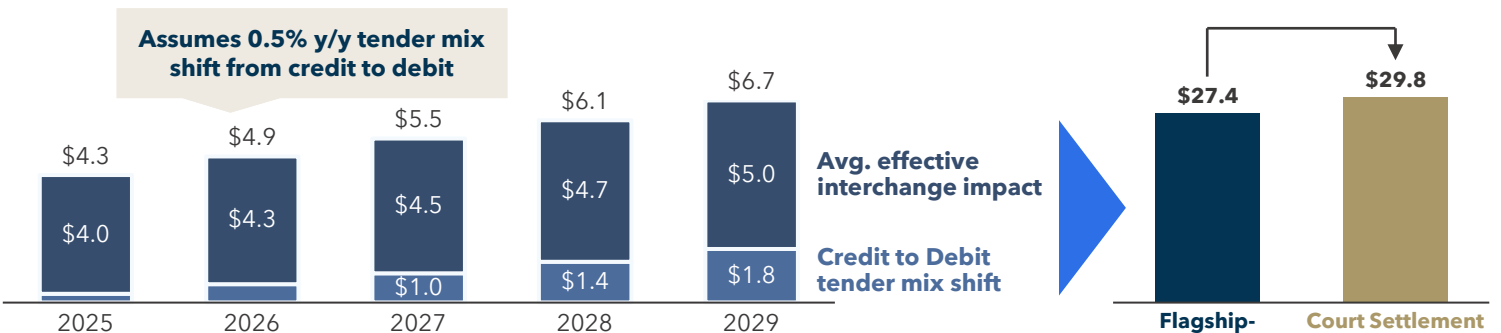
Sources: Global Data market reports, Flagship Analysis © Flagship Advisory Partners, March 2024

2 Est. US Credit Card Acceptance Fees (in USD billions, 2016-2023 CAGR, V/MC only)



Sources: Global Data market reports, The Nilson Report, Flagship Analysis © Flagship Advisory Partners, March 2024

3 Est. US Credit Card Scheme Fee Settlement Impact on Interchange Rev. (in USD billions, assumes average effective interchange reduced by 0.07% from 2025-2029)






Sources: Global Data market reports, Flagship Analysis © Flagship Advisory Partners, March 2024

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4 Proposed Surcharging Rule

Merchants can surcharge Visa and/or Mastercard transactions at either the “Brand Level” or the “Product Level” and can make these surcharging decisions separately for Visa and Mastercard.

  BRAND LEVEL	<ul style="list-style-type: none"> Merchant adds the same surcharge to all Visa and/or Mastercard credit card transactions, regardless of the issuer or product type Merchants may surcharge the lesser of 3% or the merchant’s cost of acceptance as long as it does so for all credit card brands they accept including American Express and Discover or 1% regardless of other brand surcharge decisions 	<p><i>Illustrative Example</i></p> <table border="1"> <thead> <tr> <th>Scheme</th> <th>Product</th> <th>Charge</th> </tr> </thead> <tbody> <tr> <td rowspan="2"></td> <td>Elite</td> <td rowspan="2">3%</td> </tr> <tr> <td>W. Elite</td> </tr> <tr> <td rowspan="2">VISA</td> <td>Signature</td> <td rowspan="2">3%</td> </tr> <tr> <td>Infinite</td> </tr> </tbody> </table>	Scheme	Product	Charge		Elite	3%	W. Elite	VISA	Signature	3%	Infinite		
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VISA	Signature	3%													
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 PRODUCT LEVEL	<ul style="list-style-type: none"> Merchant adds the same surcharge to all Visa and/or Mastercard credit card transactions of the same product type (e.g., Visa Signature Card, Visa Infinite Card, Mastercard World Elite, etc.), regardless of the issuer Merchants may surcharge the lesser of 3% or the merchant’s cost of acceptance for that product as long as it does so for all credit cards of the same product level across brands including American Express and Discover or 1% regardless of other product surcharge decisions 	<p><i>Illustrative Example</i></p> <table border="1"> <thead> <tr> <th>Scheme</th> <th>Product</th> <th>Charge</th> </tr> </thead> <tbody> <tr> <td rowspan="2"></td> <td>Elite</td> <td>-</td> </tr> <tr> <td>W. Elite</td> <td>3%</td> </tr> <tr> <td rowspan="2">VISA</td> <td>Signature</td> <td>-</td> </tr> <tr> <td>Infinite</td> <td>3%</td> </tr> </tbody> </table>	Scheme	Product	Charge		Elite	-	W. Elite	3%	VISA	Signature	-	Infinite	3%
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Sources: Visa & Mastercard SEC Filings, Flagship market observations
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5 Payments Landscape Impact and Considerations

STAKEHOLDER	IMPACT	RATIONALE & CONSIDERATIONS
CONSUMERS 	Negative	<p>Cost of purchases likely to rise as surcharging requirements are eased</p> <ul style="list-style-type: none"> Product-specific surcharging does (potentially) introduce the ability to pass along fees to consumers/business most able to afford increased costs <p>Potential for more confusing payment experience</p> <ul style="list-style-type: none"> Discounting, surcharging, inconsistent acceptance of digital wallets, etc.
SMALL BUSINESSES 	Mostly Neutral	<p>Small merchants on bundled pricing will not directly benefit</p> <ul style="list-style-type: none"> But greater flexibility on surcharging will help and some of the 4 bps reduction could trickle down if PSPs price compete on this basis
ENTERPRISE MERCHANTS 	Positive	<p>Enterprise merchants will capture most of the direct cost reduction benefit</p> <ul style="list-style-type: none"> Large merchants are mostly (if not all) priced on an IC+ basis and now have more leverage to negotiate
PSPs & ACQUIRERS 	Positive	<p>Merchant payment enablers should assess their commercial strategy and readiness to enable changes to the customer experience</p> <ul style="list-style-type: none"> PSPs serving small businesses stand to benefit most from the change by capturing additional margin via bundled pricing Complex discounting and surcharging will require product investment by ISVs
NETWORKS 	Neutral	<p>Visa and Mastercard revenue impact is minimal</p> <ul style="list-style-type: none"> The settlement does not reduce or restrict network fees and assessments The settlement is not related to the proposed Credit Card Competition Act and may even make it less likely for that regulation to pass
WALLETS 	Potentially Negative	<p>Pass-through wallets can no longer count on universal acceptance</p> <ul style="list-style-type: none"> Merchants gain the right to disable specific digital wallets (e.g., Google Wallet but not Apple Pay) without disabling the entire POS contactless interface
CARD ISSUERS 	Negative	<p>Card issuers will experience modest declines in interchange revenue</p> <ul style="list-style-type: none"> Interchange reductions and caps and mix shift towards lower-cost card products due to steering may bend the curve on interchange income growth Issuer-level merchant discounts could introduce a new competitive dynamic at the point of sale; however, we are bearish on merchant adoption of this tool

Sources: Flagship market observations and analysis
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Thank You!

For any questions, please do not hesitate to contact the authors:



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