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Navigating Increasing Interchange and Network Costs

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Key Takeaways

1. Understand recent changes in network costs and how market dynamics have affected costs
2. Update on real-world impact of PINless debit changes, post July 1st
3. Identify ways adjust payment processing flows to mitigate these increased fees
 1. Specifically focus on estimated and incremental authorizations
 2. Excessive auth fees
4. Combating lost network fees on refund transactions
5. Hear how your peers are managing these fees (U-Haul and Uber)

2023 Card Network Pricing Changes

April 2023 Notable Changes include:

- **Visa Incremental Auth Fee** – new fee of 0.02% (April 17)
- **Visa CVV2** – new fee of \$0.0025, applies to match or no-match (April 1)
- **Visa MSD (Mag Stripe Data) Contactless fee** – new fee of \$0.10 (April 1)
 - For POS entry mode 91 (MSD); Jan 1 '24 for service stations & AFD
- **MC Excessive Auth Fee** – \$0.10 currently, increased to \$0.15 Jan 1 '23.
 - Increasing to \$0.30 in 2024; and to \$0.50 in 2025
 - Applies to >10 retries on issuer declines in 24hrs
- **MC Auth Optimizer Fee** – new fee of \$0.02 for CNP auths declined for NSF
- **Discover Network Integrity Fee** – increasing from \$0.05 to \$0.10
- **Star/Accel interchange rates** – various changes, mostly rate increases

Recent increases were the most significant in decades

Most merchants expected to see ~5%-10% cost increase

Visa Is Planning the Biggest Changes to Swipe Fees in a Decade

There was no stopping credit card fee hikes this year

◆ WSJ NEWS EXCLUSIVE | FINANCE

Visa, Mastercard Prepare to Raise Credit-Card Fees

The increases, delayed during the pandemic, mean many merchants will pay more when shoppers use credit cards

Highlights of 2021-2022 Changes

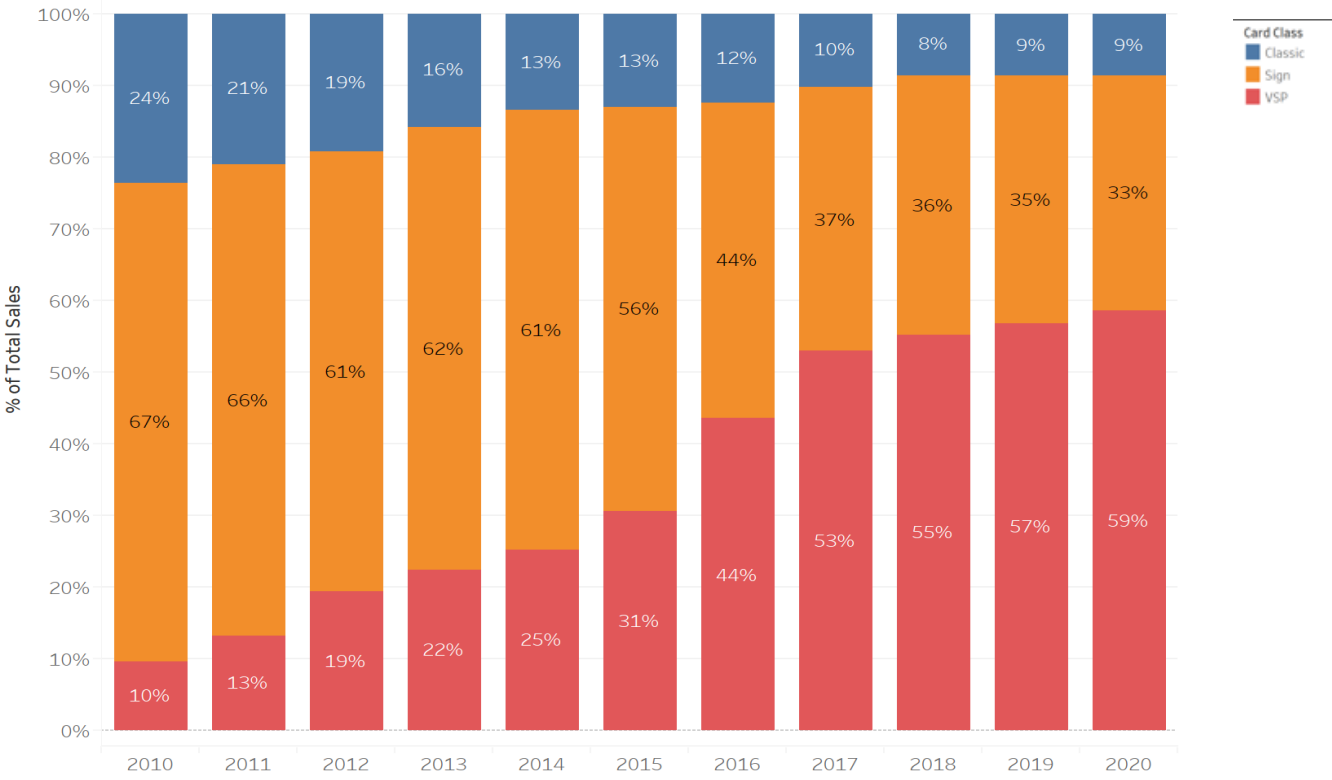
Over 40 pages to fully summarize, major increases included:

- **Visa CNP Business cards** – up 25 – 40 bps (2021)
- **Most Visa CNP Consumer Credit cards** – up 9-10 bps (2022)
- **Visa Restaurant** – up 20 – 56 bps (2020)
- **Most MC consumer credit cards (CP & CNP)** – up 5 – 15 bps (2022)
- **Most Discover rates** – up 5 – 10 bps (2022)
- **MC Digital Enablement fee (CNP only)** – up 1 bp

However, other dynamics are also increasing costs...

Card Type Shifts & Inflation

Issuers have been issuing more expensive cards



Source: Optimized Payments internal data

While generally increasing rates...

		2022 Rates			
Visa CC Type	CC Mix	Retail	Restaurant	Grocery (Base)	E-Comm
Classic	9%	1.51% + \$0.10	2.10%	1.50% + \$0.07	1.89% + \$0.10
Signature	32%	1.65% + \$0.10	2.60%	1.65% + \$0.07	2.05% + \$0.10
Sig. Preferred	59%	2.10% + \$0.10	2.60%	2.00% + \$0.07	2.50% + \$0.10

		2010 Rates			
Visa CC Type	CC Mix	Retail	Restaurant	Grocery (Base)	E-Comm
Classic	24%	1.54% + \$0.10	1.54% + \$0.10	1.24% + \$0.05	1.85% + \$0.10
Signature	66%	1.65% + \$0.10	1.90% + \$0.10	1.65% + \$0.10	1.90% + \$0.10
Sig. Preferred	10%	2.10% + \$0.10	2.10% + \$0.10	2.10% + \$0.10	2.10% + \$0.10

... to fund CC rewards

...to fund credit card rewards

New Offer! Earn a **\$200 cash rewards bonus** when you spend ~~\$1,000~~ **\$500** in purchases in the **first 3 months**¹

Plus, earn **unlimited 2% cash rewards** on purchases²

\$0 Annual Fee

Earn up to 6% cash back at your favorite stores, plus a \$250 bonus.

5% Back

2% Back

1% Back

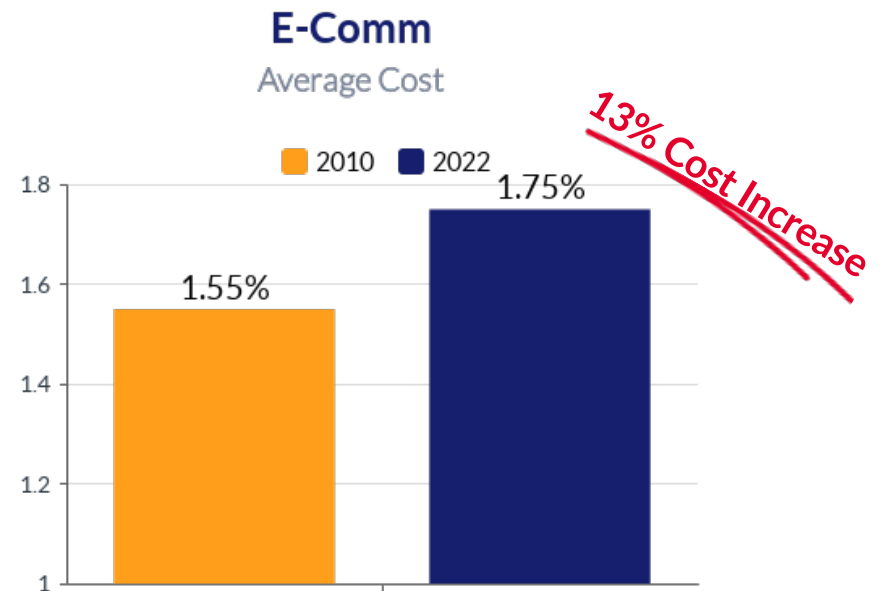


Impact On a Merchant with \$50 Avg Tkt & 50/50 Debit/Credit Mix

E-Comm: Interchange Cost increases + mix shift led to 13% cost increase

Interchange Rates			
Visa CC Type	2010	2022	Change
Classic	1.85% + \$0.10	1.89% + \$0.10	0.04%
Signature	1.90% + \$0.10	2.05% + \$0.10	0.15%
Sig. Preferred	2.10% + \$0.10	2.50% + \$0.10	0.40%

Credit Card Mix			
Visa CC Type	CC Mix	CC Mix	Change
Classic	24%	9%	-15%
Signature	66%	32%	-34%
Sig. Preferred	10%	59%	49%

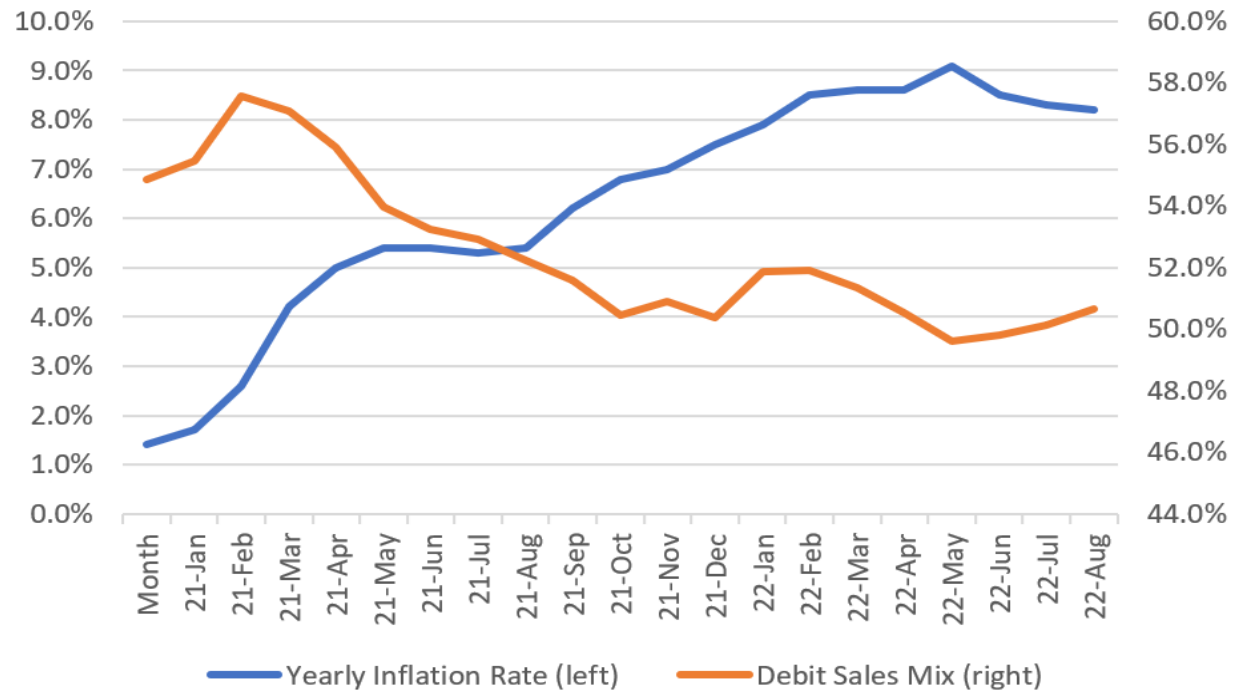


As inflation dramatically increased in recent years, debit decreased

- Inflation line (blue) clearly inverse of debit line (orange)
- Debit peaked during COVID

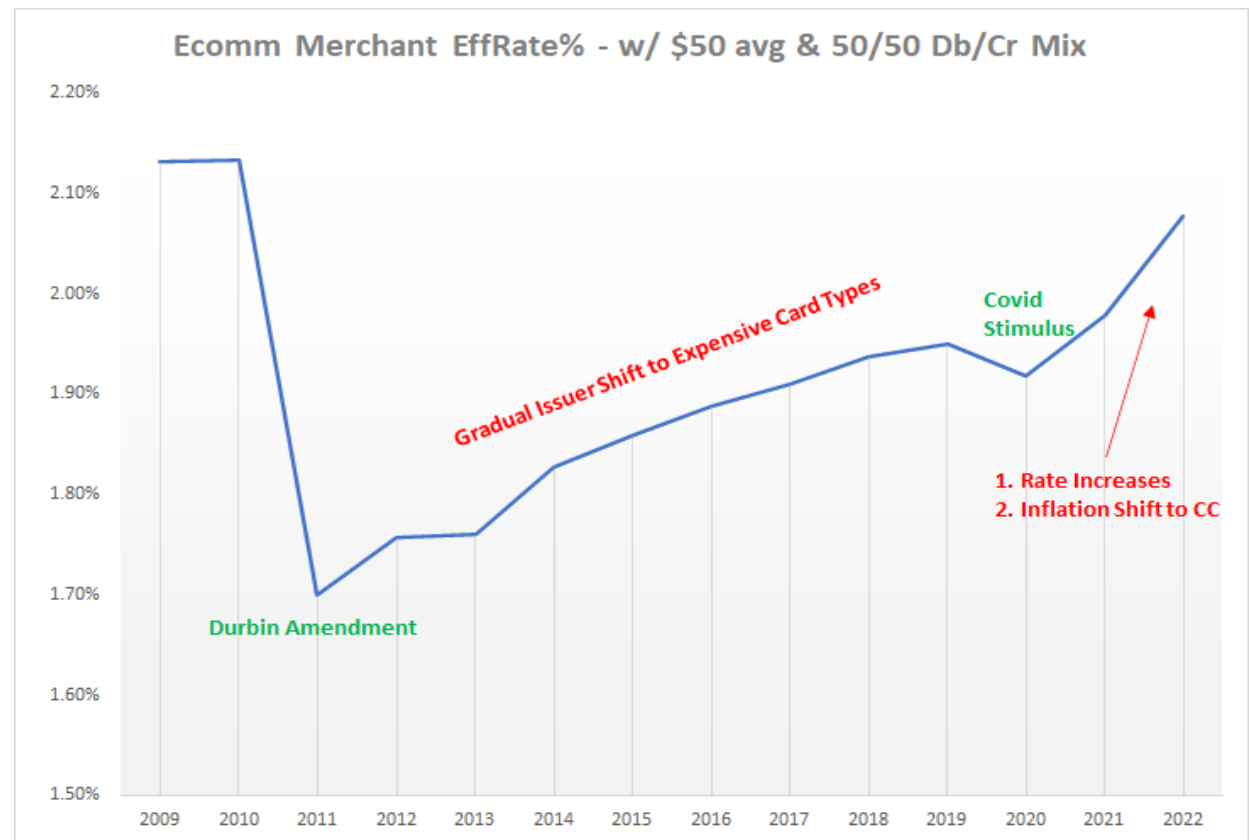
7% decrease in debit mix will increase overall card expense by 4-7%

Inflation & Debit Sales Mix



Fees Have Soared Since Durbin Amendment in 2011

- Published rate increases
- Consistent network fee increases
- Issuer shift to most expensive card types over the last decade
- Recent inflationary pressure pushing more consumer to credit cards



But there's hope...

PINless Debit Update – (July 1, 2023)



CNP Issuer Participation has doubled and grown to ~ **65%** since **October 2022 Reg II ruling.**

- Higher Issuer Participation = Higher Potential Cost Savings
- [Federal Reserve Board - Regulation II \(Debit Card Interchange Fees and Routing\)](#)

PINless Debit Benefits:

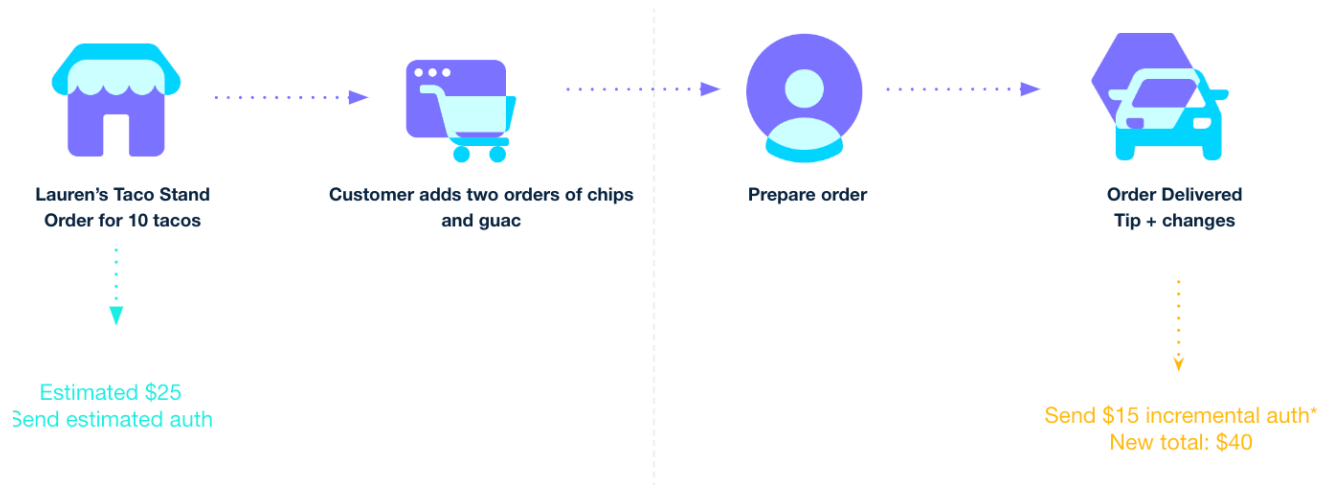
- ✓ Reduced Interchange & Assessments Costs
- ✓ PINless debit should not impact processing speed
- ✓ PINless debit should not materially impact Authorization rates
- ✓ Customer experience is transparent and unchanged

Disclaimer



The following slides show informational content, based upon data visible to Stripe. The data may be incomplete or inaccurate, which may cause the analysis to be inaccurate or incomplete. We recommend you review and confirm the analysis is correct based on your own data sources. Similarly, all cost optimizations that we present are speculative, and you will need to scope the feasibility, cost and benefits of any optimization, before deciding to implement an optimization.

What are estimated and incremental auths?

Transactions where you expect the final amount will increase may benefit from increment auths.



Who can use incremental auths for Visa transactions?

	Current	Mid-April 2023
 Eligible Merchants	Restricted to MCCs, for example: 4121: Taxis and Limos 5812: Restaurants 5411: Grocery stores	All merchants globally
 Pricing	No additional fees	<i>2 bps per estimated auth</i> <i>2 bps per incremental auth</i>

Options for Processing Eligible Transactions

There are four potential options for processing transactions when the final amount is unknown:

- Use estimated and/or incremental authorizations
- Process multiple transactions
- Overcapture up to 20% (U.S. and CA), 15% (GB) above initial transaction amount
- “Over-auth” and process an auth reversal for the excess

Fixed Fees are a Key Driver of Network Costs

In order to minimize network costs, it will be key to reduce the number of fixed per item fees charged during the transaction flow. There are several components of network fees that can include a fixed per item charge including:

- Auth and auth reversal fees
- Settlement fees
- Fixed per item portion of interchange rates

Overcapture minimizes fixed transaction fees

Summary & Key Takeaways

Utilize best practices for managing card processing costs

1. Track and manage fees via analytics
2. Ensure all interchange fees are optimized
3. Avoid downgrades
4. Level 2 / Level 3 processing
5. Debit Routing / PINless Debit
6. Visa Tokenization

Thank you

Don't forget to submit your session evaluation!

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