

MAG Mid-Year Conference 2022

Mass Merchant SIG Notes

Confidential

MAG
MERCHANT ADVISORY GROUP®



SIG Leaders

- Ken Grogan (Wakefern)
- Ginger McDonald (Home Depot)
- John Drechny (MAG)
- Report provided by Callum Godwin (CMSPI)

Action Items

1. Merchants should reach out to Visa and Mastercard to find out if you have interest in their BNPL products and if not, then you should opt out
 - *Please let Laura Townsend and Eric O'Brien know if you've reached out to Mastercard or your acquirer about this topic.*
 - *The MAG guide to BNPL can be found on the MAG website under "Community of Practices".*
2. The MAG will continue to update merchants on key advocacy areas such as: BNPL, PINless debit enablement, network tokenization including the Visa browser issue, Amex debit cards and 8 digit BINs
3. Merchants should speak to CMSPI if they are interested in information on debit issuance pattern changes
4. Merchants should monitor regulated v unregulated debit card volumes over time, given the growth of "fintech" based unregulated debit cards

Contents

- Buy Now Pay Later (BNPL)
 - Background
 - Fees
 - Incremental Sales
 - Regulation
 - Visa/Mastercard BNPL Solution
 - Transaction Profiles
 - Marketing
 - MAG Resources
- Alternative Payment Methods (APMs)
 - Background
 - Contactless
 - Mobile Payments
 - QR Codes
 - Apple Tap to Pay
 - Cryptocurrency

- PINless Debit
 - PINless Merchant Acceptance Levels
 - PINless Issuer Enablement Levels
 - MAG Advocacy
- Issuance Pattern Changes
 - BIN Management for Debit Routing
- Network Tokenization
 - Network Token Acceptance
 - Debit Card Routing
 - Visa April Price Changes
 - Browsers
 - MAG Advocacy
- Unregulated Debit
 - Fintechs
 - Prepaid
- Fee Increases
 - April 2022 Fee Increases
 - New Decline Response Codes
 - MAG Involvement
- Real Time Payments Acceptance
 - Background to Faster Payments
 - ACH backed “Pay by Bank” Product
 - Consumer Incentives
 - Education
- 8 Digit BINs
 - PCI Guidance
- Armored Transport
 - Staffing Shortage
- Terminal Hardware
 - PCI Expiry
- On Demand Delivery (ODD)
 - Taxes
 - Interchange Fee Implications
- Amex Debit Card
 - Background
 - MAG Involvement
- Aggregators
 - ACH to Credit
- PayFacs
 - Pros and Cons
- Return Authorizations
 - US v Canada

Notes (virtual and in-person meetings)

Welcome & Introductions

1. Welcome to new attendees
2. Reminder that attendees are bound by the antitrust statement read in the general session

Buy Now Pay Later (BNPL)

1. Background

- There was a session on BNPL at the MAG and there are some BNPL exhibitors.
- There are several different types of BNPL. Some are on the Visa and Mastercard rails today, and merchants can accept them without knowing it. Alternatively, there are some BNPL firms you have to actively enable, for example Sezzle.
 - One respondent told merchants “if you think you’re not accepting BNPL you’re wrong,” because a number of BNPL products run on Visa/Mastercard rails, and merchants should look for some high cost debit cards in their data, as it’s very likely some will be BNPL.
- Established industry giants are getting involved. PayPal are getting ready to release a BNPL offering and Visa and Mastercard are actively entering the space too (see point 5 below)
- BNPL companies are very popular in different parts of the world, and there are pros and cons to the different ones
- There was an informal poll on BNPL acceptance - 5 people are actively engaged with a BNPL provider today, while virtually everyone else is thinking about it.
- BNPL can be omni-channel, but it is often CNP only

2. Fees

- One merchant said they have seen BNPL show up in transaction costs, but they don’t see it until they started looking for it. The first indication was around returns - Zip had a problem with returns.
- In terms of interchange categories – the downside is that merchants are charged a commercial debit card rate, which is a higher rate. This rate is higher than regulated debit and even some credit. Zip alerted one merchant respondent and came to them about a promotion, informing this merchant that Zip customers already spent x amount in their stores, and when this merchant did a BIN check they found that this analysis was correct. These transactions run on instant issue card with a specific BIN. If BNPL only shifts tender then merchants lose because most BNPL is cannibalizing debit volume. Merchants only win if it brings in new customers or increases existing customer spend.
- Someone in state government said government payments are mandatory payments so why would they consider taking BNPL? Even in this situation though, BNPL could reduce delinquencies. Another respondent said they are in a similar position in healthcare.
- One respondent noted they also see virtual cards and have set them up as affiliates. Sezzle either wants an affiliate agreement or a direct integration, and when this merchant tests with them they’ll see if it brings in new customers. Some BNPL providers make all their money from interchange fees, and some charge consumers on instalment payments. They may charge consumers a dollar each in instalments, so their interchange may be lower as they’re often also making money from the customers. However, Sezzle say they charge no customer fees, which means all the money they receive is from the merchant via interchange fees. This plays into why you take one not the other – for example, Sezzle might have a bigger customer base as they don’t charge consumer fees, but nobody really knows the answer.
- There has been some “gamesmanship,” where BNPL providers cover offers early on and then come back to the merchant to ask to fund free offers – there is “no free lunch.” One merchant said they had experience with instalment payments in other markets for a long time, particularly Latin America, and some of those prices are extremely high.

3. Incremental Sales

- How do we evaluate incrementality? What baselines should we use? One merchant said they are using a data science group to track new and existing customers and have a set data range, so they know if customers have been transacting in the last 12 months and they can track incrementality. They are looking primarily at ecommerce so they can get the billing address, and they know on average they get a certain percentage of new customers, so if that percentage is the same through BNPL then it's not true incrementality. They then look at existing customers: are order values or frequencies changing?
- Merchants should consider the cost of debit, co-brand cards etc.
- In terms of refunds, BNPL use virtual cards so it flows through the regular process.
- Another merchant said they have a loyalty program like most grocers, once they see a transaction they can go back and look at the customer's buying habit in previous 6 months. If they can't find evidence of a loyalty card before then they assume it's a new customer.
- The challenge is, if you partner with one of the BNPL brands that uses a Visa or Mastercard card, and you promote usage of this in store but find out there are no new customers, then you can't turn it off because it's a Visa/Mastercard transaction. In this case, you've now just trained customers to use BNPL in-store at a higher cost with no corresponding benefit and you can't turn it off.
- This merchant also accepts a lot of SNAP food stamps, and often customers have used up all their funds by the third week so typically in the last week of the month SNAP sales are down, so BNPL could be a good partner for SNAP. This would allow customers to get a smaller credit line on BNPL so it could, for example, give a family the ability to buy \$100 of groceries at the end of the month. This is another thing this merchant is looking at that in the test – are SNAP customers using BNPL, and does it give them access to credit?
- Another merchant asked if BNPL is an expectation of customers now? If they don't offer it, they could a merchant lose business to their competitors? If these services are predatory to the consumer over time, how does that play out to us?
- One respondent told merchants to be wary of what partners indicate they will provide for you, such as increased ticket size or increased sales. They said merchants need to make sure they have your own way of measuring the results and validate that their own outcomes and objectives are achieved: don't just take it all at face value.

4. Regulation

- Beth Provenzano from the MAG noted the CFPB has opened an investigation into BNPL firms. CFPB Director Chopra was an FPC commissioner and has been interested in payments. The Democrats have control but the Senate is narrowly divided so it is hard to get something to the President's desk. Some members think it should sit with one agency. The FTC would "love it" but the Republicans may not give it to them. It's an election year so it's hard to move legislation, and while there could be something down the road it will not be soon.
- The fees for consumers with BNPL are small and lower than credit cards. For a new customer to BNPL, their credit line will be small at perhaps \$400-500, but some consumers are paying banks 15-20% interest on groceries on credit cards.
- The Sezzle Up program allows consumers to build their credit rating via Sezzle but if regulation comes in, Sezzle may lose a competitive advantage as the credit bureaus get involved with BNPL more generally.
 - BNPL customers tend to be 30-35 or younger and often don't have traditional credit cards, either through choice or no choice.

5. Visa/Mastercard BNPL Solution

- John Drechny said both global card networks have a plan to bring to market a BNPL program but in different ways. Visa is actually the “better of the two” because they’re going to create APIs merchants can integrate all the way up to product pages, so this will give customers an experience of “here’s an item, here’s your payments” but it is totally opt in for merchants. They are doing it in Canada - opt in to get it done. John said “we love when people bring us new initiatives and we as merchants decide!”
- The Mastercard BNPL program will be installed on April 1, 2022, but it’s opt out rather than opt in. This means that come April 1, all merchants will be clients of Mastercard’s BNPL program unless they do something. John encourages merchants to have a discussion with their acquirer and tell them if they don’t want to participate. There is varying feedback from acquirers on readiness. Generally they are all amenable to you telling them you want to opt out, and they should all have a process for it.
- John also notes that the acquirers were not excited about Mastercard’s process either and considered opting out all merchants but none have pulled the trigger on this. The MAG will pull together acquirers and merchants and push for it to be opt in. The MAG is aware not everyone wants incremental cost and many merchants have individual arrangements in place.
- The MAG encourages merchants to reach out to Visa and Mastercard to find out if you have interest in their BNPL products, and if not, then you should opt out.
- Mastercard told the MAG that on April 1 merchants won’t see many transactions but integrations with the banks will ramp up by June or July.
How will the opt out being applied in practice?
- Currently the MAG understands if merchants opt out it could lead to a decline which is a bad customer experience. Mastercard tried to explain to the MAG if a merchant opts out and doesn’t accept their BNPL solution then it wouldn’t be tendered to the consumer to try to use it. The MAG is concerned Mastercard will tell the banks it’s opt out and the banks will have to make sure the customer isn’t offered the solution – but the banks are likely to blame the merchants if there are any issues. There is “more work to do there.”
- ***Please let Laura Townsend and Eric O’Brien know if you’ve reached out to Mastercard or your acquirer about this topic.***

6. Transaction Profiles

- One merchant said they are looking at larger ticket items while another merchant said they are not interested in smaller basket sizes. On the other hand, a third merchant said that their deferred financing starts at \$300 and under that level they are interested in BNPL, for example 4 split pays, not longer-term stuff.

7. Marketing

- One merchant considering partnering with a BNPL provider that’s using the network rails - is it worth doing a marketing thing? It’s a double edged sword, if it gets you new customers then great, but if it’s just switching products then you’re increasing costs without increasing your sales.
- Merchants should be careful about how they use your data to market other merchants. One merchant said a competitor got data from Instacart saying “an Instacart shopper is coming into your store.” Once customers go through the BNPL app they get all the data off your website, and they can use that data to create other marketing programs for the customer, which is “scary.”

8. MAG Resources

- John Drechny from the MAG noted they have put out a BNPL guide after interviewing key players. It is available on the MAG website under “Community of Practices.” The guide covers key players, for example Sezzle and what they do – instant card or direct etc. One merchant said they use that resource “pretty much every day.”

Alternative Payment Methods (APMs)

1. Background

- The MAG defines APMs as anything that’s not Visa or Mastercard.
- One respondent said merchants need to be vigilant in what payment types to accept, ask a lot of questions regarding return/chargeback handling, what’s a true cost, what’s a funding mechanism/timeframe, and need to be wary of the different solutions that are coming. It’s a big decision to turn on a new payment type.
- Key questions include: What’s a current business driver for APM acceptance? What do we need to do to meet our next business needs? It may be short term: there is no “one size fits all” for this one. What is the customer asking for?
- One respondent encouraged merchants to consider IT resources, and look at what’s a quick win vs a non-quick win. Nobody here has extra IT resources!
- With all APMs, nothing has got big enough where you’re at a competitive disadvantage by not taking it, but something could. As a merchant you don’t want to be the last one.

2. Contactless

- One merchant saw an increase in contactless with covid but it’s not as high as anyone thought, single digits, which makes them question all the other ones.
- Apple Pay - 5-6 years ago people “went crazy,” but today one grocer said they could “turn it off tomorrow” and nobody would know. One respondent noted that contactless on transit is “awesome,” but in the grocery industry it doesn’t really do anything.
- The question when it comes to contactless and other APMs is: are you solving a consumer issue?
- One merchant in the pharmacy industry noted that “people who use Apple Pay love it” and that if it was removed as an option there could be a vocal minority/some friction from those customers but it is unlikely to lose sales.
- This merchant said they “think it’s coming but not in the next year or two.”

3. Mobile Payments

- One respondent said they think drivers’ licenses on your phone could be big for payments, and could mean people don’t carry wallets anymore, with everything including payments on the phone.
- The Secure Technology Alliance, which owns the US Payments Forum¹, has standards on mobile acceptance, and the MAG is engaged from a merchant perspective. UL has driven a lot of the specs around mobile driver’s licenses and the MAG are helping to define the business case.

¹ <https://www.uspaymentsforum.org/about/faq/>

4. QR Codes

- One merchant is thinking about a mobile offered QR code. PayPal does it, and another merchant said they have a digital wallet where the QR code is scanned in store. It's a technical challenge, considering connectivity and IT crashes, so it's still in debate. They could be solving a problem nobody has and investing a lot of money in the process.
- Target is "best in class" with this.
- The MAG Community of Practice is working on a QR code paper – what works best, how you present it, which will be released in the next 2-3 weeks. Laura Townsend is working on it.
- PayPal/Venmo is a QR code (PayPal owns Venmo). You can also look at the QR code success in China, where WeChat/Alipay's penetration is "astronomical" compared to anything in the US. One merchant in the healthcare industry will start taking WeChat and Alipay as they have an international program – there's a huge request from China, with a second opinion program using doctors from the US. This is all online but they are looking at QR codes separately. Another healthcare merchant said they do it on their portal and have done it for several years, and usage is good. Another merchant in the pharmacy industry said they take Alipay but not WeChat in store.
- Pay By Link is "PCI compliant but clunky."

5. Apple Tap to Pay

- Apple has announced a Tap to Pay payment mechanism, and they've just done a press release.² This is targeted at Square customers today, it's a tap NFC to NFC payment just using an Apple device, without Clover or anything like that.
- Pay By Glass is the official name and EMVCo has a specification. All it's doing is reading the card and taking info – it's not really a solution for enterprise sized merchants using reconciliation etc. It's the "plumber" - using a secure element and taking it up for authorization.
- MAG had an interesting discussion with Mastercard around moving decisioning closer to the merchant, and "a lot of people are thinking about it."

6. Cryptocurrency

- One merchant said they are more interested in BNPL than crypto. There are crypto cards that run on Mastercard rails, plus PayPal, so why invest in crypto when consumers will figure it out if they want to use crypto and use PayPal etc? On that basis there's no need to build direct lines.

PINless Debit

1. PINless Merchant Acceptance Levels

- One merchant in the grocery industry said they don't have PINless debit turned on.
- Another merchant in the pharmacy industry said they are doing PINless in store but not online yet. This merchant is not happy with current enablement levels. To further exacerbate the situation, this merchant is seeing a shift away from PIN debit in general: their PIN portfolio is getting smaller and signature debit volumes are getting bigger, so if you don't

² <https://www.apple.com/newsroom/2022/02/apple-unveils-contactless-payments-via-tap-to-pay-on-iphone/>

have enough banks enabling PINless it makes it even worse. This merchant converted to PINless in 2016, it has not been worth it on volume alone but from a strategic perspective it gives them tools when negotiating with the networks so they are happy they enabled it.

- Another merchant said they had turned on PINless for ecommerce that day!
- There were a couple of merchants in the room who do have PINless debit and they say they're "underwhelmed" with the volumes but they believe this is mainly because it's not turned on by the card issuers.

2. PINless Issuer Enablement Levels

- Callum Godwin explained that CMSPI estimates suggest PINless enablement by card issuers is less than 50%, with small issuers enabling PINless significantly more than large issuers.
- One merchant agreed with CMSPI's analysis that PINless enablement rates haven't changed. This merchant has been told PINless issuance is growing but when they fact check their data "we're not seeing more adoption." Another merchant said their business won't get IT resource with only 40-50% of the pie eligible, so it's a vicious circle.

3. MAG Advocacy

- Beth Provenzano noted that the MAG had responded to the Federal Reserve's consultation concerning their clarification on PINless debit enablement.³
- In terms of timeline for PINless enablement, merchants believe enforcement should begin immediately, but the MAG expect there to be a "grace period" for issuers.
- Beth said the MAG have mentioned in their letter to the Fed that the current debit card cap – which has now not changed in 10 years – is not reasonable and proportionate. In response, the MAG "got a vague response."
- Republicans have blocked votes on Fed nominees and have an issue with Sarah Bloom Raskin, which will have to be worked out. We currently "don't know how it'll pan out."
- It looks like it will require a full Senate and that might take a while as a Senator from New Mexico is ill.
- We've seen some progress: Senator Jack Reed asked about underlying issuer costs and Senator Cramer from North Dakota asked Brainard and Powell about the timing of the clarification for Reg II routing on the record. He received a non-committal answer but it's good questions are being asked and there is attention to the issue.
- Ken Grogan said it does make a difference to bring it up to politicians, as it keeps it at the forefront. If merchants don't bring it up, decision makers think they don't care and the banks will definitely be there advocating. John Drechny noted that 6 banking associations wrote to the Fed saying the Durbin amendment isn't working, that there's no consumer benefit, and they want the Fed to write to Congress to repeal it. Ken noted the "banks have deeper pockets" and encouraged merchants to reach out to show somebody cares.

Issuance Pattern Changes

1. BIN Management for Debit Routing

- One merchant asked about BIN management for debit routing – wanting to know if any other merchants are getting BIN files from debit networks so they know issuance pattern changes.

³ https://www.federalreserve.gov/SECRS/2021/September/20210901/R-1748/R-1748_081021_140753_423623478640_1.pdf

In particular, how often are you getting it and what are you doing with it? The main interest here is on the cost analysis side, and seeing what networks are enabled on debit cards. For example, if Mastercard lost an issuing relationship, how would that impact this merchant's routing agreements? This merchant's processor manages routing, while the merchant themselves negotiate agreements and their processor manages routing tables.

- While no merchant seemed to have a definitive answer, Callum Godwin mentioned CMSPI has debit card BIN databases that track issuance pattern network changes over time, and merchants are welcome to CMSPI about this service.

Network Tokenization

1. Network Token Acceptance

- Some merchants are considering introducing Visa network tokens just to avoid certain fee increases (see section 3 below).
- One merchant said they are looking at network tokenization's impact on auth rates, approval rates, fraud benefits etc. It is a "discovery effort" right now.
- Another merchant said they are looking at network tokens and have had conversations with Visa. There will be lower costs associated with network tokens, but they are also still in the "discovery phase".
- Another merchant said they are still in the research phase right now, and have heard network tokens help auth rates but they're not sure they want to give certain networks more data for free. This merchant is considering continuing to use acquirers tokens but also create network tokens and store them alongside acquirer tokens - that way they avoid fee increases by having network tokens but they're not sure they would really utilize it for anything.
- Another merchant said they encourage everyone to look at card brand announcement for the same network token usage around the world – the networks are likely to be testing something in another region that may come to the US. They said acquirers will have more information, and merchants should definitely ask them about other regions because it could be a precursor of what's to come here.

2. Debit Card Routing

- One respondent said they don't know if debit routing has been solved with network tokenization?
- Visa says you don't have to take them, and can continue to route the original PAN, but Mastercard is different – they say on Apple Pay "you decided to take it and you knew it was a token so you must route to us as you made that decision."
- It was noted that even with the Visa situation, the merchant would require a cryptogram and the domain channel to be able to route the transaction to another network, making routing very hard in practice

3. Visa April Price Changes

- In April Visa is changing their online pricing structure and if you don't use their network tokens it'll cost you higher interchange fees. However, network tokens are still not mandatory. One merchant said to keep in mind the historical approach of the card networks, which suggests the benefit may not be there tomorrow. They don't "have a ton of faith they'll stick with that."

4. Web Browsers

- The MAG found out recently that the card networks are working with browsers such as Chrome and Safari saying that when consumers auto populate card numbers, why don't we give you a network token instead? This would mean merchants get tokens instead of BINs for these transactions, so fraud tools that track customers won't know anymore – you can't say "you've seen this particular card seven times before so it's ok."
- This is problematic for merchants. They need to advocate to browsers and networks that this creates friction, potentially limits routing rights, etc. because if it becomes an opt out then we know only a very small percentage of people will actually do anything. There would not even be a consistent token – each device would be a different token. The networks are saying it's another six months before merchants see it because they've not agreed any deals with browsers yet, but they did it before with Apple Cart.
- If it's your wallet then you're good as you're the one populating it, however sometimes when people register it with you they'll use what's stored in the browser and will repeat it because you think that's the actual card number.
- Visa argues it won't be fraudulent because it's a token! It's a one-time token, but it could be converted from a fraudulent card, and without tokenization the merchant might have been able to identify it was a fraudulent card. The MAG believe it "will have unforeseen implications."
- The MAG have never seen data on the number of people who store credit card details in their browser, but they will ask about that.

5. MAG Advocacy

- The MAG has turned in lengthy comments to the Fed: they have argued network tokens are not necessary and that issuer tokens would be preferable but issuers seem to have no appetite to get involved with this.
- John believes if there were issuer tokens you wouldn't care what network you sent the transaction down, so the MAG have said it's "great if Visa wants to be the token provider for the issuer, but let the issuer decode it."
- The MAG hopes the Fed gives more flexibility to push on it. It's a highly complex industry, and getting Federal government employees to understand it enough is a challenge. Beth Provenzano mentioned the DOJ is paying attention as well; and the MAG staff thinks Visa would be more concerned about the DOJ than the Fed. The DOJ have recently had a staffing change with lawyers handling the case which may delay things, but at least they're paying attention. Heightened regulatory scrutiny and media attention may explain why Visa has taken a less bullish approach than Mastercard on some issues recently.

Unregulated Debit

1. Fintechs

- Callum Godwin noted that CMSPI has observed an increase in unregulated debit card volumes in recent months partly due to an increase in "fintech" unregulated volumes – where large fintech companies are pairing with small issuers to receive higher unregulated debit interchange fee income. Merchants should look out for volumes from issuers such as Sutton Bank and Chime. CMSPI encourage merchants to monitor their regulated versus unregulated debit volumes.

2. Prepaid

- One merchant asked what options merchants have to control costs on prepaid card products? These products are not PINless eligible and the PIN is bypassed, so fees are typically high.
- Another merchant suggested maybe the biggest area of opportunity here is the merchant community pushing more of the Earned Wage Access (EWA) sort of products where underbanked people become sufficiently banked. There is hope that some of these products can set people up with low-cost checking and a debit card tied to an account that would offer true debit card rates.

Fee Increases

1. April 2022 Fee Changes

- One merchant noted that newer payment methods are more expensive than the old ones – for example BNPL. This means there are additional costs for merchants. It's happening fast, and the pandemic accelerated it. This merchant is also seeing a higher volume of higher cost unregulated debit cards.
- One respondent asked if merchants think they have good visibility of the changes? CMSPI has been putting out studies around total impact, but are there good merchant specific insights from acquirers? One merchant says his business has three acquirers and they're in the dark regarding the dollar impact for changes, and his acquirers are "having a tough time helping us" on the 2022 impact.
- Another merchant said they are seeing the same - they hear of major public announcements, but the first round of feedback is a data dump from their processor, with a 300 page PDF of all changes. The acquirer's RM team tries to highlight what's applicable for them based on MCC etc, but the merchant are still waiting on quantification - they are still in the phase of acquirers trying to say what's applicable for the merchant.

2. New Decline Response Codes

- One merchant said they had to speak to their acquirer about this, who had to get more information from the networks. They found out they have to request to get an expanded decline code, which they have to ask their acquirer for. They are "still doing discovery," finding out how useful this information would be and are issuers even ready to handle new decline response codes?
- Another merchant said they have to ask their acquirer what it means for us – it would be nice if their acquirer said "this is a new release, this is what it means for you." This merchant accepts analysis etc takes a while, but it's frustrating as there is no quick answer.

3. MAG Involvement

- Merchants are limited in preparation due to a lack of information. It takes a while to trickle down
- The MAG is looking to increase the lead time of changes by:
 - 1) Getting it to acquirers and
 - 2) Acquirers giving it to merchants in a digestible format.
- How are the acquirers educated on these changes? Do they have a lack of knowledge? They could gather more knowledge up front.

Real Time Payments Acceptance

1. Background to Faster Payments

- One merchant said they are “very supportive on faster payments.” They have looked at it from a holistic perspective and have met with internal stakeholders in areas such as the B2B space, payroll distribution, bill pay and accounts receivable/payable.
- One area it made most sense was consumer payments – looking at the “pay by bank” feature/capability you see on a lot of bill payment/utility sites today. They did have on one of their brands previously and it was pretty successful until they made site changes that made it less attractive. They were getting mid-single digit penetration in “the old days” even where account number etc and step-up authentication was sometimes needed.
- This merchant also mentioned they had conducted some analysis in the customer space, and “they’re asking for it,” so they are hoping to deliver in the near future.
- This merchant is also pressuring a lot of service providers that can do ACH to provide a smart routing type solution – RTP from TCH or FedNow, with fallback to ACH.
- Another merchant said they are “looking at it” but have not got real traction. They are interested from a reduced cost perspective, but a lot of the suppliers they talked to didn’t have a full omni-channel working solution. Another merchant noted there are a lot of players in the space, including traditional acquirers such as Fiserv, FIS, Chase, that have solutions that support card present and omni-channel, and merchants should challenge them if they are hearing differently. There are also new entrant players. Plaid has a partner structure to handle experience and others handle payments, while Notally and MX are also trying to expand pay by bank as well.
- Another merchant suggested that RTP suppliers don’t really have a big base of customers, and need to build it up. They hope someone will come through with a solution and a base of customers, which might speed some of it up.

2. ACH backed “Pay by Bank” Product

- One large merchant said they don’t have the option right now but another merchant said their business does have an ACH product today.
- In terms of the “faster payments of tomorrow” – today the consumer gives up their routing number, and this merchant has found younger shoppers using fintech banks often don’t even know their routing and DDA number, so this hampers the customer base. This merchant is interested in faster payment for all of what it offers and to “give us more of an edge” to meet shoppers’ demands for today.
- Another merchant noted that some solutions are more like Yodle or a Plaid where you can enter the bank credentials, which is more what that target market are used to as younger consumers tend to have a banking app with their log-in and password but not their account and routing number. However, this merchant has seen those solutions seem to have a higher cost component: you want to be paying 8-10c for guaranteed ACH, not 20c and be getting close to debit card costs so it’s less compelling, which they see as the only downside to additional verification.
- The other component is ownership in the competitive market: look at Visa trying to buy Plaid, that’s a “scary proposition,” so many merchants are more favorable to something driven by the Fed just because of that segregation, but there are other non-Fed products that can meet the needs of merchants’ immediate concern.

3. Consumer Incentives

- One merchant said they struggle to see the consumer incentive to move to ACH/faster payments type payment methods? At least one fuel merchant has the “cents per gallon” incentive which is good, but for grocery/retail with very slim margins, determining what that incentive to the consumer is will always be the hardest part.

- Another merchant conducted a survey that said 85% of customers wanted to be able to pay by bank, so they believe there will be subset of the customer base willing to adopt it as there's some demand out there. This merchant agrees the incentive side is trickier but they are still hoping for natural adoption.
- Another merchant said it is helpful and interesting to hear the opposing merchant side about whether to offer incentives to consumer to adopt, and they want to hear issuing side
- This merchant has spoken to banks who think faster payments is inevitable/coming/the next big thing but don't know what it means in terms of communication and marketing to their consumer base.
- Merchants may think issuers won't market a lower cost faster payments alternative over credit or debit cards where they make more money, but some issuers may lean into it in the future - nobody seems to know yet.

4. Education

- John Drechny asked the merchants how well educated they are you on the issue. One merchant said they "could use some education on it" as there is "a lot in payments market these days."

8 Digit BINs

1. PCI Guidance

- One merchant said they have concerns that PCI guidance was updated in January, which may affect their ability to keep up with changes to account for 8 digit BINs. This merchant's terminal provider said they can't support an 8 digit BIN mass output at the moment.
- Another merchant stated that acquirers have reporting updates to take care of, and merchants should check downstream systems to make sure that's accounted for and you won't be impacted. This merchant has also heard issuers don't plan to cross over different BINs for at least another year, so from an issuer standpoint it should be ok to work through the kinks for another year but there are "no guarantees".

Armored Transport

1. Staffing Shortage

- Because of the pandemic there are staffing issues for Armored Transport (AT) carriers, and even when cash is successfully picked up it goes to a cash vault that is likely to also have staffing concerns. Because of this, cash sits there and one merchant said it can be more than 30 days for merchants to get credited on accounts. This merchant observed that some parts of the country are having worse AT problems than others. They are considering smart safes but is there anything else out there?
- Another merchant has been told by an AT carrier that "we don't want your business anymore." Another respondent did say they were "seeing some AT improvement overall".
- One merchant has recently consolidated their bank accounts and doesn't have many branches nearby anymore, so walking cash to the bank is less of an option.
- One respondent in the healthcare industry said their offsite clinics have gone cashless "where we can," and they are piloting bank by mail. They will "see where it goes," but are looking at remote deposits for checks in as many locations as possible. They "hate cash" for a lot of reasons and are hopeful bank by mail works out. This service also mails change to the merchant as well.

Terminal Hardware

1. PCI Expiry

- One merchant said they are rolling out new PIN pads, but everything has been delayed. There is a lot coming up on PCI expiration dates, and their acquirers have encouraged them to go to PCI. Is it a security issue or can we delay a year or two?
- Another merchant suggested that for a lot of these dates, as long as you're getting PCI vulnerability support then you can get patches, and they may not manufacture the terminals anymore but as long as the manufacturer still provides support for vulnerabilities you could be ok. One merchant said they have some devices well out of date but they continue to get support from Ingenico and Verifone on security issues.

On Demand Delivery (ODD)

1. Taxes

- One merchant said they have been “dabbling” with pickup and delivery services such as Instacart. Their concern is that all the reporting seems to be based on BINs, which seems very clunky/manual. They said that in certain states, if you purchase at their store via Instacart, Instacart needs to be remitting taxes but in others, it's the merchant. The reporting/transactional detail is a lot, so they would like to know how you tackle it and make it less manual? It takes a lot of IT work and process changes, and they are nervous about the accuracy of tax reporting.
- Another merchant says this “rings a bell” and Ken Grogan from Wakefern (who was absent from the meeting) may know. John Drechny suggested a software company was named in a previous virtual SIG that may also be able to help with this.
- The original merchant had an Instacart pilot for 6 months in one small area, and they're finding some “interesting things” - they have contractors doing the work and they get confused, so not having a simplistic way they can replicate has delayed further movement. In terms of the cost side, they have noticed transactions are declined via the PIN rails but get approved via the signature rails.

2. Interchange Fee Implications

- John Drechny said there is an ongoing discussion about how they are classifying these new types of products. Chime is “skating around Durbin” and are getting the highest interchange rate they can, and as a result merchants have seen more commercial debit cards than we thought could exist! John encourages merchants to collect and collate information and send it to the MAG.
- John said there are “too many business models based on how much interchange they can get from merchants”, and “we need to keep pushing them for a justification.” For fintechs, this model is the “easiest path forward” but the MAG “would have loved innovation from the networking side.”

Amex Debit Card

3. Background

- Amex's consumer facing debit cards offer 0.5% rewards. They are not regulated due to a clause within the Durbin amendment that carves out three-party networks, and Amex is both an issuer and an acquirer. The logic is that in a three-party model the merchant is not beholden: as a three-party network Amex had to come to the merchant to negotiate while in four-party model they team everyone behind you. The MAG has asked Kristy Cook at Amex for more information.
- Owen Glist at Constantine Cannon said the 2003 lawsuit whereby debit acceptance cannot be tied to credit acceptance only applies to Visa and Mastercard, and this explains why they

need to say debit at the front of the card. This suggests that Amex can “force” merchants to accept their debit cards if they also accept their credit cards. The definition of a payment card network is an entity that routes from an issuer to an acquirer, and Discover would have the same categorization as Amex. Both Amex and Discover don’t have to route debit card transactions – they are out of both the No Network Exclusivity (NNE) clause and the interchange cap.

- Owen says the problem merchants have is they “don’t want to open this up again as everyone will jump in” relating to the rule making process. That 2003 lawsuit was a “huge win” for the merchant community, and when it was agreed there wasn’t an Amex debit card product. Owen also added that even if there was, the merchants may have argued it would add more competition.
- One respondent mentioned Amex haven’t been transparent about their true debit card strategy. Amex initially said they were testing a China-based debit card, they then said they were launching in the US but only for small merchants with a checking account from it, and they didn’t expect much usage. However, there’s now a full-on advertising campaign for a consumer facing debit card, and it will be attractive for consumers.
- Consumer will have to lift their bank account and send it to Amex so we’ll see what that means in terms of its success.
- Big banks have approached the Fed regarding Chime skirting the Durbin rules and have said if you allow them to do it, the banks become uncompetitive so we need to get rid of Durbin. Therefore, it’s another mantra for them. Meanwhile, merchants are arguing the banks’ Authorization, Clearing and Settlement (ACS) costs are now half the size they were in 2011, so the bigger concern is the positioning. The MAG is concerned that if we re-open Durbin to try to include Amex we’d lose the debit card cap as the banks have beat it to death, and they “worry very much about it.”

4. MAG Involvement

- The MAG has reached out to Amex about practical questions – for example, can we use in cash-like transactions? Merchants have rules saying if it’s an Amex BIN, then don’t use in this type of item. Amex was specific in saying don’t allow for money transfer orders or to pay PLC bill as they don’t want people running up points at our expense. If it’s PIN based, will there be cashback? What will consumers be charged on PIN based card? So there are practical as well as pricing and go to market strategy questions. The MAG think it will be interesting to see how merchant conversations regarding acceptance will go.
- One merchant asked Amex about their debit card product and were surprised when Amex’s legal department was answering technical questions about PIN prompting! They’ve said online PIN is a priority. This respondent has also been informed there will be no cashback feature, it will not be routable, and it will work like a credit card. They also mentioned merchants are accepting it today regardless of their agreement with Amex, and it is already out there today.

Aggregators

1. ACH to Credit

- One merchant said they have noticed Aggregators taking an ACH transaction and sending it down credit card rails, and he asked what’s the incentive to do this?
- Another respondent mentioned that Wex does this. Small financial institutions are paying processors, such as FIS, Fiserv and Jack Henry, to process ACH transactions. However, companies such as Wex say “let me be the processor for this” and they’ll turn the ACH

transaction into a commercial credit card transaction, and then split the interchange income with the small financial institution.

- In many cases, the consumer is not properly notified, and merchants get contacted by their customers saying “what’s this charge card on our bill?”. However, networks have changed rules and added coding to give merchants visibility and decision making power.
- Grant Olson at ADT “has been one of the most vocal” in helping the MAG work through it. They have shut BINs down in some cases where the abuse is particularly bad.

PayFacs

2. Pros and Cons

- One merchant said they have multiple acquirers, and they use a lot of different gateways for different verticals. A lot of them are becoming their own Payment Facilitators (PayFacs).
- This merchant is “old school” and wants a relationship with an actual processor such as FIS, but there seems to be a lot of PayFacs and now anyone can become their own processor. They asked - is there a disadvantage in going with one of them as opposed to an old school processor?
- John from the MAG responded that “anyone who sits in between adds price, so are they doing anything in addition to justify that extra price?” John said that if any large merchants in the room find an ISO or PayFac that offers you a better price than your current processor, “you should beat someone up!”

Return Authorizations

1. US v Canada

- One merchant said it has gone well in the US with no issues. However, in Canada they are still having issues with a 6% rate.

POLLS

MAG attendance – 57% virtually, 43% in person

“What’s the biggest challenge merchants face in payments?”

- Fighting online fraud
- Increasing costs x3
- Fraud
- Cost
- Rising fees
- Changing payments landscape x2

Cost was identified as the main challenge merchants face in payments.