

MAG Mid-Year Conference SIG 2023

Mass Merchant SIG Notes

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- Ken Grogan (Wakefern)
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Action Items

1. Please let Beth know if you'd like to participate in an upcoming CCCA fly-in
2. Please contact Callum Godwin at CMSPI (cgodwin@cmspi.com) if you would like access to a list of BNPL BINs so you can track BNPL spending. There are several of these, and some BNPL providers have more than one BIN
3. Beth mentioned that the Fed still has its coin taskforce, and they are still interested in information from merchants. Please let Beth know if you would like to participate.
4. Beth will mention merchant concerns related to the new bank wallet to Christina Brown at the FTC in her follow up

Notes

Welcome & Introductions

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

Credit Card Competition Act (CCCA)

1. Background

- Beth Provenzano from the MAG provided an update on the bill. The CCCA was introduced as a bipartisan, bicameral bill last Congress but did not come up for a vote at the end of 2022, so the bill has expired. However, there is a plan for the bill's co-sponsors Senators Durbin (Democrat, Illinois) and Marshall (Republican, Kansas) to reintroduce the bill this year, and it is expected soon. The hiccup may be that Peter Welch (Vermont) – who was the Democrat champion of the bill in the House – has now been elected to the Senate, so a new Democrat bill sponsor is needed in the House. The Republican bill sponsor in the House Lance Gooden (Texas) is still on board.

2. Bill Details

- CCCA would extent the Durbin amendment's No Network Exclusivity (NNE) clause to credit cards. The bill will require a second credit network on each credit card, just like the debit routing, except issuers would not be able to badge only the two largest credit card networks (currently Visa and Mastercard) – in that instance, they would need a third network. CCCA only applies to issuers with more than \$100 billion of assets and does not include a cap on credit card interchange fees.

- Callum Godwin noted that CMSPI analysis suggests US merchants would achieve at least \$11 billion of annual cost savings if CCCA entered into force, which is larger than the benefit merchants derived from the Durbin amendment. This is largely because credit card merchant fees are significantly higher than debit card fees.

3. *Advocacy Update*

- Merchant Payments Coalition (MPC), of which the MAG is a member, help support the bill by providing technical information. The MAG attends MPC fly-ins and appreciates the merchant participation. Beth emphasized that the MAG and MPC are happy for merchants to travel to DC to advocate for the bill, and if anyone is nervous about it, she assured them it's "the most fun you'll ever have", and a great opportunity to talk to lawmakers about why we need competition in payments. Beth explained that the MAG works well with other trade associations, and they've already had good fly-ins, including over 70 meetings on February 1st and 96 meetings in November. Additionally, the other trade associations such as NACS and FMI are all having general fly-ins in March, April and May. Beth believes it's "a great use of your time".
- Beth added that the merchant advocates make the fly-ins as easy as possible, including pamphlets and 12 teams with team leaders, including Beth. One merchant respondent who is on the same fly-in team as Beth added that "windows of opportunity like this only open every 12-15 years" so it is essential merchants make the most of it.
- Beth mentioned that the banks and global card networks are out there spreading misinformation in an attempt to thwart the bill. For example, they are arguing that rewards will go away and that adding a second credit card network is not technically feasible – both of which are not true. Another merchant respondent added that "the other side are there in droves", and that a lot of credit unions are lobbying against the bill, even though only one credit union – Navy Federal Credit Union – will be covered by it, the bankers still have them up there lobbying. This respondent added that it does make a big difference when merchants turn up as politicians pay attention to the amount people who care on either side.
- Beth added that the FTC's order on Mastercard's debit practices and the Fed's PINless routing clarification are the perfect storm for momentum, because Hill staff who don't understand the full complexities are getting a better idea. We now have new Senators and House members but there has been a great educational effort – particularly on the Senate side, and developments such as the FTC's intervention are helpful. Christina Brown from the FTC attended the MAG conference and sat on a panel on Wednesday, and the MAG knows she is open to discussing the issues, so they encourage merchants to ask her questions.
- **Action – please let Beth know if you'd like to participate in an upcoming CCCA fly-in**

4. *Political Process*

- In terms of the bill's likely passage, Beth thinks Senator Durbin would likely offer the CCCA as an amendment to a larger package in the Senate, and then the larger package would get voted on in the House. The alternative would be to send the bill via the Senate Banking Committee – also known as the markup process or regular order – and there is a new Ranking member on the Banking Committee. However, while the bill's sponsors are open to a hearing, we don't ideally want the bill to go through the markup process/regular order as the banking committee is harder for us because "it's the banks' committee".
- Beth believes Senator Durbin is willing to drop the bill at a moment's notice if there's an opportunity, hence we need fly-ins early. For the original Durbin amendment, Senator Durbin filed the bill as the amendment deadline was closing and got it attached. Beth thinks Senator Marshall is on board with that plan. One potential issue is that must-pass legislation sometimes happens at the end of the year, although it could happen sooner.

- Beth believes that momentum is on our side despite the opposition out there, and said she is very confident in the vote count if we reach that stage.

PINless Debit

1. CNP and CP PINless

- One merchant respondent asked about the impact of the PINless clarification on physical stores, as they are hearing the requirement for routing doesn't necessarily affect PINless card present debit card transactions. This merchant's digital and stores have different profiles, and could potentially mean they want to move away from PIN prompting in stores in future. Callum Godwin from CMSPI added that card present PINless could become a contentious advocacy issue in future months because the clarification was more explicit about CNP PINless and although we know the spirit of Durbin clearly intends for debit routing options to be available on all debit card transactions, issuers may look at restrict PINless to CP.
- One respondent in the grocery space said PINless didn't make any sense for their business a couple of years ago due to low enablement rates, but now it's a different consideration and this respondent is now actively looking at it.
- Another respondent from the grocery industry added they're also fact finding – they're very debit heavy and they have a lot of ecommerce transactions through Instacart. They're now building their own platform and they're starting by looking at PINless ecommerce, although it now seems they need to reconsider for in store PINless transactions too.

2. Advocacy

- The banking trade associations sent a letter on Friday 10th February asking for a two-year delay to the July 1st 2023 PINless enablement deadline, which Beth described as "rage inducing" because they've had so many years to comply. We don't yet know if the Fed will grant an extension, but the MAG is sending a letter to the Fed clarifying that there is no need for a delay. All correspondences the MAG sends to the Fed and the FTC can be found on the MAG's website, and even though comments to the Fed are made public, the letters will be on the password protected part of the MAG's website.

Interchange on Sales Tax

1. Advocacy

- Some states have considered removing interchange on sales tax. There is a bill that has passed the North Dakota Senate, which is now awaiting the ND House. There are even more states interested in it this year, and 11 considered it last year. These state-level bills are another helpful tool, because if state legislators are talking about it then it can rise to the attention of US Congressmen and Senators. The MAG doesn't do state-level advocacy but if there's a specific way they can be helpful they will get involved, for example in Maine the MAG filed comment on the issue two years ago. Beth added that John Drechny may be also willing to testify.

Department of Justice (DOJ)

1. Update

- Beth Provenzano mentioned that the DOJ are getting "more serious again" about Visa. She added that a trial attorney who has done other payments cases has been joining calls, and Stephanie Martz at the NRF feels it's a significant sign they're getting closer to doing something.

8 Digit BINs

1. Update

- One respondent mentioned there was a webinar last week on 8 digit BINs, and asked how is everyone handling it. This includes whether merchants are using it, routing on it, and passing it downstream?
- Another respondent said they have only got as far as consuming the BIN file. They can pass it downstream, updating logic, but they haven't gone any further. They will look at the routing impact later.
- Another respondent said they don't do anything in-house, and they're reliant on third parties, but they don't know how they can verify that.
- Another respondent in the healthcare industry said they have to trust their partners. They have 13 processors and multiple gateways, and they want to make sure they do it all the way through, so they're prepared. This respondent noted that Flexible Spending Accounts (FSA) and Health Savings Account (HSA) cards affect them because some have not adopted 8 digit BINs, and they are hoping re-issuers don't start with it, or they will see declines from January 1st
- Another respondent said they are currently using 6 digit BINs, and they think there's a chance that won't be a problem, but in the webinar they spoke about 8 digit reissuance from the start of April, and outlined some worst case scenario examples. Respondent doesn't have a hard coded BIN issue but if products are included on the 7th and 8th digits then it could be a problem. This respondent noted HSA cards are probably the worst in this regard.
- This respondent noted that to be able to problem solve, they need to work on 8 digit/extended BINs, which means they "have some work to do". This merchant's terminal provider is not getting an 8 digit BIN – it's not an option yet - but it sounds like a lot of companies are in a comfortable spot.

Payments Mix

1. Update

- One respondent asked if merchants are seeing shifts in payments tender. This merchant is debit heavy, and still see more cash than you'd think, but they are starting to see a shift into more credit, and the respondent wondered if this was typical or if they're outliers. They noted this has only just started - when the stimulus money came they saw a shift to debit, which stabilized and now they're seeing even more credit than pre-pandemic.
- Another respondent in the grocery industry noted tender changes are slow, fractions of a percentage, but the trajectory they're seeing is a slow climb to credit. They're also seeing less cash, and EBT volumes are "roughly the same".
- A different grocery respondent noted that BNPL volumes may be spiking for the same kind of reasons as credit card spikes, i.e. consumers not paying their bills off immediately.
- Another respondent said they are seeing more credit card spend and within that, more usage of reward cards. Another respondent noted that some banks are offering more cashback, and it indirectly increases their cost of transactions. This respondent said it becomes tougher, because with brand rules you have to accept all credit cards so they are seeing business and other cards with huge rates, some even as high as 4-5-6%.

Contactless/NFC

1. Update

- A respondent from a general retailer said they saw a shift to debit during the pandemic, but it is now all coming back, and they are seeing more contactless spend
- Another general retail respondent noted that since they enabled NFC contactless in Canada, they have seen a massive shift to credit and reward cards
- This respondent added that this is mobile tap and go – and there are sometimes incentives to consumers for loading rewards cards onto wallets and other non-reward cards often can't be loaded on to the wallets.
- Another respondent in the grocery industry said they are debit heavy, and if transactions start moving onto digital wallets on phones then consumers generally don't change their top of wallet card, and if the top of wallet card is credit then they'll start paying credit for everything, so a grocer will see an increase in their cost of acceptance by turning NFC on, potentially with no benefit in terms of sales uplift.
- One of the general retail respondents added that they're still seeing more contactless card than wallet transactions, and a separate grocery respondent said they are seeing more contactless cards too, which may reduce the conversion to credit
- Another respondent added that not every bank is issuing contactless cards currently – for example, the small bank this respondent uses in Ohio has not issued them a contactless debit card yet, although all of their credit cards are now contactless. Another respondent added they have only received a contactless debit card through a large bank because they asked for it!

Alternative Payment Methods (APMs)

1. Update

- One respondent from the healthcare industry said they believe APMs are “here to stay” here to stay while another respondent said they are a “fad”.
- Another respondent noted it depends on the definition of APM. For example, Venmo and PayPal could now be considered mainstream, not alternative. This merchant – in the grocery industry - accepts both Venmo and PayPal in store, and don't think of it them as an alternative payment. However, any time crypto is mentioned internally it's shot down.

Buy Now Pay Later (BNPL)

1. BNPL BIN Data

- A respondent from the apparel industry asked merchants who *don't* have a BNPL partnership, if anybody is tracking volumes in store, because they have some frustration where they can't track BNPL spending, even though they know it's increasing
- **Action – please contact Callum Godwin at CMSPI (cgodwin@cmspi.com) if you would like access to a list of BNPL BINs so you can track BNPL spending. There are several of these, and some BNPL providers have more than one BIN**
- Another respondent in the retail industry said their in-store BNPL volumes have been negligible
- Another respondent emphasized they want merchants to be careful about getting data from BNPLs, and that merchants needed to compare it to their own data to ascertain whether BNPL is adding net value to your business
- Another respondent in the grocery industry observed that most BNPL volume is coming from debit or cash, and shifting tender is no benefit to their business – the only benefit from BNPL is incremental sales and they believe this benefit eventually runs out.

2. Advocacy

- Beth Provenzano from the MAG noted that CFPB does have an ongoing review of BNPL and wants there to be a credit score rating on them. Amy Zirckle from the CFPB was on a panel at the MAG conference, and although BNPL isn't her area she'll talk to the group. When the MAG last spoke to her in November there wasn't much news.

3. Card Network Installments

- One respondent said they believe card network installment programs have been developed as a response to BNPL, where merchants have shown they are willing to pay 5-6% total fees. This respondent believes this is the "very first step of a slippery slope": if you look at Latin America as a case study the networks could offer 6 months, 12 months and even 48 months with no interest to the consumer, and merchants pay for an acceleration of the settlement in exchange for a huge fee that makes interchange look "beautiful"! It can be "very scary".
- This respondent added that merchants can opt out but nobody does, because when all your competitors do it, it becomes an escalation where you lose too many sales from opting out.
- Another respondent added that merchants have to opt out v. opt in with the Mastercard US BNPL solution, and this merchant is automatically in it for now.
- Another respondent added that the industry's strategy is to "tell you how amazing it is", and make it free for three months because issuers are willing to back it up, but then suddenly it won't be free. This respondent said their business is really worried about it, because merchants will get excited about card network installments like they have for BNPL.
- Another respondent added that when interest rates were cheap it was less important to get quick settlement, but now that money is more expensive it could be appealing to merchants.

Automated Clearing House (ACH)

1. Update

- One respondent in the grocery industry said they have had an ACH solution for several years, including online, and they have received good volume. It is not as much as they would have hoped but ACH is not heavily promoted. Overall, it has been beneficial, and they would push more people to it if they could.
- A respondent from the telecoms industry added they see strong ACH volumes for recurring transactions, even in store, and it's a "strong focus" of theirs. For online ACH they have been using a third party for the past 15 months, but before that they did it themselves for a long time. The third party amalgamates, and the consumer can search for their bank. It's a seamless customer experience.
- The grocery respondent said they use incentives, including points and additional discounts. The telecoms respondent said they do the same, and presented their flow as the first option that says checking/savings account, and then there's a credit card option. The telecoms business saw ACH volumes grow by basis points but it all helps against credit card fees!
- Beth Provenzano spoke to an ACH provider at the conference, and they are seeing some issuers on the banking side trying to steer customers back to credit cards, which is a problem they need help with. It's concerning, and apparently banks are also making unfair claims about ACH security on transactions. The MAG will work with them to figure out next steps about what the merchant community can do.

Cash Management

1. Coin Shortage

- Beth Provenzano from the MAG asked if merchants are still having coin circulation issues. Many respondents confirmed that they are
- A respondent from the grocery industry pointed out that coin circulation issues are occurring in regional pockets, and not nationwide. Another grocery respondent said they are experiencing the same thing – it is not as bad as it was but it is still a problem. One respondent noted Ohio as currently having bad coin issues.
- One respondent explained that there is a fundamental coin circulation issue because the main channels consumers have previously used to get coin back in circulation have now largely gone digital. For example, tolls, vending machines, parking meters and transit systems are now electronic, with tap and go widely used. Therefore, coin now just sits “in a bucket” in people’s houses. This respondent added that the Fed are saying there is more than enough coin out there but people are just not spending it.
- **Action - Beth mentioned that the Fed still has its coin taskforce, and they are still interested in information from merchants, for example specifying which regions are seeing significant coin issues.**
- Beth suggested the Fed may need help on their messaging as they are still struggling to get consumers to use the coins they have.

2. Counterfeit Cash

- One retail respondent said they used to receive a lot of counterfeit cash. This largely went away during covid, but is increasing again. A respondent from the grocery industry added they have also seen counterfeit cash volumes increasing again in the last 6 months. They are not sure why, although cash spending volumes went way down during the pandemic and now the cash percentage is back up again.
- One respondent asked about the size of counterfeit notes merchants are typically seeing. The retail respondent said they are most commonly seeing counterfeit \$20 notes. They said counterfeit \$50 and \$100 notes used to be more common, so they used to scan them, but the practice is harder to justify with a lower denomination banknotes. One grocery respondent added that the counterfeit notes they saw were \$100 notes and they were bad! One respondent remarked that one counterfeit note said “for motion picture use only” and the cashier still accepted it!

3. Armored Transport, Cash Recyclers and Smart Safes

- A respondent from the grocery industry noted that coin circulation and Armored Transport (AT) have been issues recently. Another grocery respondent observed that “all Armored Transport carriers are terrible”! They added they frequently just don’t show up and then the store has excess cash, which leads to a cash flow issue and a security issue. Another respondent added that in their smaller stores their safes can be full, and they’re trying to lock cash in a drawer. It was a daily struggle for this merchant, more and more store associates are becoming aware of the amount of cash in the store.
- Another respondent said that AT is expensive, and big banks are closing branches so if you need local coin you need to open a new account with a local bank, which creates an account proliferation issue. They added that one large bank has a preferred vendor instead of picking the cash up themselves, and they wanted the merchant to sign a contract with the preferred vendor rather than the bank, which did not work out. This merchant then tried the same thing with another bank and that failed too. The respondent added that there is the option of smart safes, but they are expensive. They mentioned that Armored Transport carriers ask them

every week if they want to try smart safes! They added that they don't want to walk their cash to the bank (WTB).

- Another respondent noted that in some rural areas, AT carriers will often say they only go there 3 times a week, so if you want service on a fourth day it will cost you 10x the service fee. This respondent believes the market has evolved to the point where the choice could eventually be cash recyclers, smart safes or nothing. However, in urban areas, they said it is "less of an issue". Another respondent from the grocery industry said they use cash recycler safes but are still having Armored Transport issues, because cash recyclers still fill up and you still need change and coin, so merchants still don't get out of the true need of an AT service.
- One respondent concluded that there are "no good solutions", because cash recyclers are very expensive. Another respondent mentioned that interest rates going up helps the business case, because merchants can get provisional credit from their banks sometimes with smart safes and cash recyclers, but they still don't think it makes up the added cost.

4. **Cashless**

- One respondent noted they've seen a lot of companies moving to cashless, and asked if people see it progressing. One respondent added that the conference hotel doesn't accept cash for coffee!
- A respondent from the grocery industry said that for all the reasons previously discussed there is a cashless push, but some states are now saying merchants have to accept cash. Another respondent added that in New Jersey going cashless is technically against the law, and the attorney general filed a lawsuit with three business not accepting cash, which included a local deli. This respondent believes this will strongly discourage other businesses from going cashless. Beth said she's seen state bills, which look to protect cash so that low-income families are able to pay for things, and she knows there are Congressmen looking at it, but she thinks it's unlikely to go anywhere at a Federal level.
- One respondent added that once every couple of months someone internally will ask if they can go away from cash, but it's very difficult. They said that during the holidays when they have additional registers, they tend to be cashless, so the main area of the store has cash, but the periphery does not. This respondent concluded that they're not sure most merchants would want to go cashless.

5. **Self-Service Checkouts (SSCO)**

- A respondent from the grocery industry added that they don't accept cash at their Self-Service Checkouts (SSCOs). Another grocery respondent admitted that their business did the same during the pandemic, but that it "killed me to steer more business to card". This respondent added that in some of their stores, SSCO have brought in more coin than they let out, so they can actually help with coin issues.

On-Demand Delivery (ODD)

1. **Update**

- One respondent asked if merchants using third party delivery services such as Instacart are seeing a large enough hike in sales to justify higher fees. Another respondent said the main consideration is – if you don't do it and your competition is, are you losing sales?
- A respondent from the grocery industry mentioned they have just enabled Doordash, and they've also been with Instacart for a while. Doordash have made their introduction into grocery delivery, and had an advertisement at the Superbowl. Another respondent from the

healthcare industry mentioned that they are introducing on-demand delivery in one of their gift shops.

- One retail respondent said they have just expanded Instacart acceptance nationwide in September, and they are “still suffering PTSD from it now”. They mentioned the reporting is hard for their business, and they need to ask a lot of questions, for example they “want to know why it’s coming through that way”. It has been challenging, but they are hearing that it is attracting a new customer base. A respondent from the grocery industry replied that they don’t get customer level data from the third-party delivery provider unless they ask for it explicitly, so they don’t know if it’s a first-time customer.
- One respondent added that there are fraud considerations. For example, who in their right mind orders 100 candles for delivery that are needed in 2 hours: it has to be fraud!
- One respondent mentioned that with Instacart you can’t generally go down the PIN route because Instacart shoppers are trained to bypass PIN entry at the POS. Transactions generally go down as commercial prepaid cards with high interchange fees. Another respondent added that merchants have a choice – it’s either a markup you have to eat or you markup your products.
- One respondent from the grocery industry added that they didn’t notice the cost impact at first, but with the pandemic Instacart volumes “popped off the charts”: they didn’t know what it was at first, but finally they called a card company and they came back and said it was on-demand delivery.
- Another grocery respondent pointed out there are important considerations around tips, because Instacart customers have 7 days to add tips, so merchants have that lingering for reconciliation.
- As a final point, one respondent added that most of the shifts we saw during the pandemic were bad for merchants. Although the stimulus was debit, it was still unregulated debit!

Payment Account Reference (PAR)

1. Update

- One respondent noted that PAR has been a topic of discussion for years. They explained that PAR is a 29-digit alphanumeric value which is the same value across different tokens. PAR helps merchants link back to the bank account with tokenization. It is essentially a way to keep track of the same guest, and also a way to help facilitate a receipt-less return. They added it falls about if you don’t get the PAR value back, especially in store, although it is more available online.
- PAR could become a lot more significant if network tokens become more prevalent. When the room was asked if anyone is using network tokens, nobody put their hand up.
- Another respondent said they are interested in Payment Account Reference (PAR). They noted PAR has been “out there” for a while but now it’s getting more traction. They mentioned that their business gets the PAR but they’re not currently doing anything with it. This respondent noted that PAR helps merchants understand it all ties down to the same household, which is important for loyalty, chargebacks, disputes, and account updater.
- One respondent added that their business doesn’t use PAR today due to a lack of availability. Another respondent said it would be difficult to add a 29-digit field to the mix. Another respondent said they looked at it 5 years ago, but it never came to fruition. Another respondent said they do see it in the auth message, but not for every transaction, and it varies by card scheme. They added that it is in the auth message but not the settlement record. This respondent would like to do something with PAR, but until there’s consistent use that likely isn’t possible.

- One respondent suggested PAR could be a future MAG Community of Practice (COP) area, particularly if network tokenization becomes more prevalent.

Telephone Orders

1. Solutions

- One respondent asked what telephone order techs they should be moving to. Another respondent said they still accept telephone orders, but they outsource it to a third party to manage the whole system, and they don't know what they're doing. Another respondent from the healthcare industry said they have a partner they use: the merchant's representative will take the patient's information and type it in, and when they go to a pay page they're transferred to the system, which is essentially IVR. The merchant representative doesn't hear any of the credit card information, and then when the patient is done paying, they come back. This merchant does it this way for compliance reasons. Another respondent added they're using a vendor, but just for the credit card.
- Another merchant added that when booking a travel trip as a consumer they had to make a deposit online, which they did via the phone. It then switched to a "secured thing", where they had to key in their credit card details, but the call center operator couldn't see or hear it, so it didn't work. The call center operator added that it happens sometimes, so they sent a secured link via email and the consumer had to log in online. Another respondent from the hardware industry said they are looking at a secure line for their call center too.

2. Text to Pay

- A respondent from the hardware industry said they are looking at text to pay via a secure text. They added that store uses cases are tough as customer wants help immediately.
- In terms of Text to Pay, a respondent from the healthcare industry said they are launching a program. Another respondent added they built one themselves during the covid pandemic, but there are fraud concerns and "a lot of struggles". They recommended merchants to "do your test market and get your feedback". Others in the room observed that this was good information to know.
- Another respondent said they use Text to Pay with home services: a customer representative texts the person or sends them a secure link, they type in their credit card information, and it shoots through their systems.

3. Fraud

- One respondent asked about fraud and stolen cards.
- Another respondent added that with CNP transactions, they've noticed people go in store and ask for a link which is a red flag. However, they added they "just needed a way to take payments during covid".
- Another respondent said that in terms of fraud, most of the solutions out there are looking at the user device as a key element, however with the phone it's a company owned device so a lot of the fraud capabilities of traditional providers are not particularly effective. They added there are specialist providers out there, but this merchant needed to build a customized solution.
- A respondent from the hardware industry added that they see that as well, but telephone payments are part of the consumer's expectation and they see it as a cost of doing business. This merchant is thinking about Text to Pay and new technologies etc. They added that "the fraud is the person doing it, not someone stealing the information". Another respondent added fraudsters often hire someone up the street to come and take the product, so the merchant doesn't actually see the fraudster.

Card on File Fraud

1. Update

- One respondent from a pharmacy is seeing card on file fraud through their proprietary payments program, where customers store their card on file online and come in store and transact. Fraudsters are adding stolen credit cards to their proprietary program. This ultimately means the chargebacks the pharmacy is getting are for in store transactions.
- A respondent from a wholesaler said that their website only allows their co-brand credit card to be added, so there is a bit more trust there. This respondent believes this helps their business keep fraud down a little, but he's not sure by how much. In terms of friction caused by not being able to add other cards, the respondent said they don't experience it on the sales side. By comparison, the pharmacy respondent said their business allows any card to be added to their proprietary payments program.
- In this program, customers can pick up prescriptions and just tell the cashier to charge it to their program account. This is ideally a trusted customer, and with their digital wallet it's a bar code they scan so the payment is embedded in the bar code. It allows customers to add their own prescriptions.
- Another respondent asked if anyone uses third parties, as they know Accertify and CyberSource are good for online but they don't necessarily authenticate the user. Another respondent added that their business is doing their own thing.

Bank Wallet

1. Background

- *Background reading:* [Banks Plan Payment Wallet to Compete With PayPal, Apple Pay - WSJ](#)
- One respondent mentioned that 7 of the United States' largest banks, including Chase, have developed a bank wallet.
- The new bank wallet solution is launching in June 2023. According to the WSJ, they're adding more banks, and already have a 150 million cardholder base, covering 40% of ecommerce transactions.

2. Technical Details

- One respondent stated the wallet will work with just credit and debit cards, and not ACH yet. In terms of open banking and ACH, it is understood there are no plans for the banks to add these right now. One respondent noted that if a consumer only has a checking account and not a credit card, it won't work as there is no ACH option. This respondent also understands that if a consumer has multiple accounts across different banks it'll show them all, randomly apparently, but if you start using one account then that bank account will reappear to the top next time.
- The wallet integrates into the proprietary wallet and automatically uploads a customer's card.
- In terms of where you can use it, the banks could do a "click to pay" type button or ask customers to enter their information. Using your email on the merchant website, they ping the banks, asking do you want to do it?
- There is no 16-digit PAN, it's a network token, and they will process off the token. Merchants should be able to store the network token if they want. They send a text to you, and now you're connected. They text the phone number on the account with the issuer and prepopulate the address for shipping to. There could be a fraud detection benefit, although there could also be a privacy concern.

3. Consumer Adoption

- One respondent added that banks haven't answered the question regarding consumer adoption: why would consumers come out of current wallets? One respondent said it is dependent on the issuer to market it, and there may be perks.
- Another respondent noted it's up to the individual banks how they market it, not the overall consortium. For example, if you're a Chase customer you'll get an offer, and if you accept the offer you can use the wallet. It's not an opt out, it's an accept the offer, so it's essentially an opt in.
- Another respondent observed that when they make a payment with their phone it prompts Apple Pay first, and they think it's likely Apple Pay will trigger on iPhones, meaning consumers will have to choose the other bank wallet. Another respondent said it is an iFrame that exists on the ecommerce web page, and it's not integrated into merchant checkout experience, it's separate.

4. Data

- One respondent asked who has the data – is it just your bank, or all 7 banks, or also the “pay by bank” consortium. This appears to be an area of uncertainty right now.

5. Competition

- One respondent said they assume the new bank wallet will take away EMVCo's Click to Pay¹ at some time, “if anyone even knows what Click to Pay is”! Another respondent also observed that it “sounds like SRC” (now Click to Pay), which “didn't come off”.
- Another respondent has heard from a vendor that the banks' real competition concern is Apple - the banks are concerned about Apple Pay and this new wallet would counter that, because they're paying for it via a 25bps interchange cut to Apple. Another respondent noted that if Apple Pay ever got a mass scale then the banks couldn't back out. They added that banks don't make any money from Zelle and ACH, and as a result they're sure that high dollar credit cards will be the first in the app.
- Another respondent said that after talking with Visa and Mastercard, they believe the global networks are concerned that they're losing their brand. Another respondent agreed, adding that Visa has been very concerned about brand recognition because as payments go more online, consumers increasingly don't know who Visa is, which explains why there is now a chime, and their logo on the PIN-pad. This respondent added that they once had a Chase card with a Visa logo on the back, and now it's on the front.
- Another respondent observed that there are potentially bad antitrust optics of a number of banks getting together to counter the solution of a perceived competitor.
- **Action – Beth Provenzano will mention merchant concerns related to the new bank wallet to Christina Brown at the FTC in follow up.**

Surcharging or Cash Discounting

1. Update

- One respondent noted that there is a MAG Community of Practice (COP) group looking at surcharging practices².

¹ [Introducing the Click to Pay icon | EMVCo](#)

² [Communities of Practice \(merchantadvisorygroup.org\)](#)

- One respondent observed that where they live they often see surcharging and cash discounting in smaller shops. They added that merchants may not be allowed to do this, but they may get away with it while, “us big guys will get a phone call if we try”. They added that a lot of mom-and-pop restaurants will add 3-4% if a customer pays by credit card.
- Another respondent said that in schools, they have noticed they aren’t able to pay cash, instead making them go online with surcharging, which means they’re paying a “convenience fee” but have no other payment option!
- Another respondent added they are seeing restaurants add convenience fees for every transaction, but it is not a card surcharge per se as they apply the fee to everyone, but it’s waived if you pay by cash.

Gift Cards

1. Update

- One respondent from the pharmacy industry said gift card fraud is “the only fraud we see”. Another respondent from the grocery industry added that gift card fraud is a red flag, especially for online orders.
- They noted that some stores won’t sell a gift card online due to fraud, and they’ve seen situations where some people order two loaves of bread and \$700 of gift cards!
- Another respondent from the general retail industry said they have a lot of issues with fraud, with fraudsters taking stock off the shelf, and when the card is loaded they’re figuring out if there’s a balance. In certain localities, this merchant is also seeing a Zelle-like issue of people being tricked into buying gift cards. They added that “people are naïve” and they are also aware of some stores where it’s enough of a problem that the locality has banned gift cards or created a rule making it untenable to sell them.
- The respondent from the grocery industry had a big issue with online gift cards, and they saw so much fraud they pulled it in a month. They saw “way more fraud” than plastic gift cards - it was typical to see someone buying an e-gift card online and within 20 mins redeem in store, and of course it’s fraud.
- Another respondent asked if this grocer uses a fraud service that knows whether it’s a gift card, and they responded that no they don’t, and that “the 19-year-old in store didn’t capture it”!
- Another respondent suggested that gift cards should have a PIN that customers need to enter. They added that their business still don’t use the PIN aside from online, although some of their stores do ask for the PIN at redemption, and they wonder if that is where the industry is going. Another respondent confirmed that their business is asking for the PIN upon redemption. One respondent added that they have been getting pushback from their operations department over the amount of time customers spend typing in a PIN. In response to this, the respondent pointed out the fraud expense line!
- Another respondent from the grocery industry said they see fraudsters using fraudulent cards to make the purchases and that’s why they get the chargeback, but with the PIN entry requirement they’ve pretty much eliminated that type of fraud.
- Another respondent recommended velocity checks, which means that once the customer hits the card number, and once there’s a balance, perhaps say there’s only so much you can check the balance before you activate it. Another respondent added that their business does that a little, and if you check the balance twice then on the third time the card gets deactivated.
- Another respondent said they are converting gift cards to be run in house.

Authorization of Refunds

1. Update

- A respondent from the grocery industry said that authorization of refunds is one of their biggest customer service complaints. They are constantly asked “where’s my refund tickets”? Because is supposed to be real time. Another respondent added that it often shows as pending. As a consumer before holidays, this respondent had a mom-and-pop merchant accidentally run 10x the transaction amount - thankfully the respondent had the funds in their account but it was 3 days before they got the funds back even though the merchant made the change immediately. Their bank kept telling them to call the merchant even though the merchant did what they’re supposed to do, and it was clearly the bank’s fault! They clarified that they have since filed a complaint with the bank...
- This respondent added that the merchant community should try to fight this a little more because for some customers this issue could have ruin their holidays. They “don’t know why it’s taking this long”.
- Another respondent said they also we have a problem with refund authorizations - if they have to refund at the end of the transaction with customer service, it sometimes takes 7-9 days. This merchant is regularly on the phone with the bank, who will argue with the merchant even after they’ve provided proof. They are spending a lot of time doing it, and they’ve had customers say they’re thinking about switching banks. However, the merchant said the refund does tend to always go through eventually.
- Another respondent said that declined refunds are an increasing issue. This merchant often has the pre-auth and the capture but still can’t refund to the same card. They sometimes try multiple times but always receive the same error, and then get told to issue the customer a gift card by the bank. This respondent added that AfterPay “pay in 4” they are using a Visa BIN to do the transactions, and when they do refunds there’s often an issue with declines.

Refund Fraud

1. Update

- One respondent in the grocery industry said that, in the light of trying to be “customer first”, their business has implemented a solution where customers could initiate their own refunds. This was on the mobile app, and was targeted at situations such as a consumer purchasing bananas and picking items in the basket that weren’t good. Their business thought it would be a great idea but unfortunately it exploded quickly so now they’re trying to clog back and put parameters around it. The respondent added that their payments team was left out, and they are slowly getting them to realize when there’s anything related to the payment experience that they should bring the payments group in before they do anything. It has been “a bit of a challenge” to manage internally.
- Another respondent from the grocery industry added that when the economy gets tough, you tend to see increased fraud. This respondent is already seeing it now, with counterfeit fraud increases, as well as other types of fraud. They are seeing debit decrease and credit increase, which shows people are running out of money so in the next year merchants may see more inventive fraud ways. The respondent emphasized that everyone needs to be more diligent, because when it doesn’t happen for a while people can get lazy and that’s when merchants will start to see more counterfeit bills.

Amex Debit Card

1. Update

- Amex has announced they are partnering with third party issuers on the debit card, with NYCE as the alternative network on the card.

- One respondent said that most Amex debit card volume is small for their grocery business, and most third-party Amex issuers to date are foreign issuers. Another respondent in the general retail business added there are some prepaid Amex cards out there, and this business sells these prepaid cards so they see “more than most folks do”.
- Callum Godwin from CMSPI discussed Amex’s strategy in recent years. Amex’s merchant acceptance levels are now up to near Visa and Mastercard levels in the US, because with their OptBlue program they’ve targeted higher acceptance by smaller merchants in particular³. This appears to have given them the foundation to enter the debit card market, and they’re exempt from Durbin as a three-party card network so they could have some leeway to levy higher fees and offer consumers higher debit card rewards. Another respondent added that Amex are trying to get into the debit card space, and they are targeting a younger and less affluent customer base.

April 2023 Fee Changes

1. Update

- One respondent said they had received their April release a little later than they would have liked. This respondent is still waiting for financial calculations, and they aren’t able to do anything quickly, so they get “a little nervous” it’ll need a technology change without advance notice.
- Another respondent added that there are new Merchant Advice Codes (MAC) codes from Mastercard. This respondent added it will change the decline reason and tell merchants when they should re-auth, and now it’s a 2 cents per transaction opt out fee, for example by saying your decline will try again 4 and 7 days. This is a “fascinating” problem for ecommerce that the respondent recommends merchants should look into.
- Another respondent added there is a new 2bps fee by Visa on estimated/incremental auth. In the online grocery industry, customers do a lot of iterative orders before the final delivery, so Visa will determine whether the 2bps fee needs to apply to this type of transaction or not. Another respondent remarked that they’re sure Visa will “err on the side of caution” when it comes to the application of the fee!

³ [What is OptBlue by American Express®? - Clover Blog](#)