U.S. debit is already more competitive than most nations

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Large merchants' battle against payment fees continues on multiple fronts. While merchants have active antitrust suits and are seeking a stronger version of the Durbin amendment, the main action may be on the regulatory front.

In 2020 the DoJ contended in a civil lawsuit that Visa had "a monopoly" in debit online and that its plan to acquire of data-sharing network Plaid would suffocate a potent emerging competitor in the crib. The acquisition didn't happen. The DoJ is still investigating Visa's debit position and practices. While there can always be more competition, the U.S. debit network market is still the world's most competitive.

By contrast, China UnionPay enjoys a debit card network monopoly. The U.K. debit-network market is a duopoly. Visa will have 65% share after NatWest's portfolio is converted to Mastercard later this year.

In Spain Sistemapay enjoys close to a domestic monopoly. Cartes Bancaires still has more than 90% of France's domestic market, with Mastercard and Visa nibbling on the edges. Canada's largest payment network by transactions Interac, owns debit at the physical point of sale.

Australia's debit-network industry is a triopoly of Mastercard, Visa, and national eftpos. As in the U.S. merchants can shift network share and pressure fees by picking routing. The global networks dominate, though routing choice has slowed eftpos's decline. Many cards are enabled on both a global network and eftpos. When cardholders insert cards, they pick the network. However, over 80% of card payments are contactless, an approach where merchants route over the cheaper network. Australia's central bank is pressing banks to enable two networks on more debit cards.

As elsewhere, the lower-cost national network was slow to support contactless and e-commerce.

There are more than a dozen U.S. debit networks including Visa, Mastercard, Discover, Fiserv’s Star and Accel, FIS’s NYCE, Culiance, Jeanie, Shazam, and Coop. Arguably PayPal transactions funded by ACH, balances, and debit cards, are debit, albeit priced like credit.

However, most small- to midsize businesses don’t accept traditional “PIN-debit” networks, notwithstanding their historically cheaper rates. They’ve made little headway online. Acculynk's efforts to support PIN online burdened consumers and didn’t generate sales.

And issuers have been slow to green-light signature, signatureless, and PIN-less-authenticated debit for the national networks.

Networks’ marginal processing costs are zero. Advocates of ebit-routing choice consequently thought routing competition would enable merchants to ratchet down interchange and bring network fees close to zero. Its impact has been more modest than hoped for.

As long as there are more than two choices, banks have an option to drop debit networks cutting interchange to win routing.

Large merchants’ directing routing, however, has squeezed network fees, particularly for PIN-authenticated payments. Large retailers and national debit networks argue Visa and Mastercard use pricing and their breadth of services and technology to inhibit merchants’ debit-routing choices.

It’s normal commercial practice to give bigger customers better prices. Apple and Google granting small app providers payment-acceptance fees 50% lower than large ones is a notable exception, and testifies to the power and value of their proprietary iOS and Android marketplaces.

When the mandate to provide debit-routing choices took effect in 2012, Visa cut debit-processing fees to better compete, and introduced a fixed monthly acceptance fee tiered by volume, a massive price hike that generated funds to reward large merchants for routing volume.

Visa and Mastercard are bigger than the national payment schemes, have richer product suites, greater technical prowess, and leverage their assets to make the whole greater than the sum of the parts.

To support merchants' debit-routing choices for EMV cards, national networks use Mastercard’s and Visa’s technology.

Each U.S. debit card has a global AID pointing to Mastercard, Visa, or Discover, and a U.S. AID identifying all enabled networks. Merchants complain the global AID is often the default. However, they frequently chose the global AID to support mobile payments and contactless as the easier path.

National networks that are focused on shaving pennies off switch fees haven’t invested in their brands or contactless technologies. There are options; the White Label Association supports EMV-compliant standards for national networks.

In 2016 the Fed forced Visa to stop mandating merchants let cardholders pick AIDs because the global AID only routes to one network. Visa’s demand pitting “Visa AID” against “US Common Debit AID” infuriated big merchants and wasn’t a brand matchup to national networks’ liking.

Dodd-Frank prohibits issuers and payment card networks from inhibiting merchants exercising debit-routing choice. The law, however, doesn’t ban cardholders choosing the network to use a promotion. Nor should the Fed inhibit cardholders profiting from benefits networks enable.

Critics assert Visa and Mastercard use their AIDs to disadvantage national networks by characterizing non-PIN-authenticated transactions as “no card verification method” transactions. Of course, PINless and signatureless debit can reasonably be described thus. The national systems could have developed their own EMV-compliant AID(s).

Does not helping weaker competitors run afoul of the Durbin Amendment or Sherman Antitrust Act?

Visa and Mastercard offer fee-free security-enhancing tokenization services, reinforcing their centrality. Most apps and e-wallets rely upon them. It's the easy path.

Merchants and national networks aren't victims. They have agency. Discover, FIS, and Fiserv tokenize payment credentials. And apps and e-wallets could use multiple tokens to identify each enabled network.

Visa and Mastercard refused to decrypt tokenized account numbers for competitors. In 2018, apparently under regulatory pressure, Visa, but not Mastercard, agreed to decrypt competing networks' tokens, if issuers request.

National debit networks are trapped in merchants', banks' and their own paradigm that they're utilities, of competing on cost rather than value.

Burgeoning buy now/pay later programs have been taking share from debit. They cost more. SMBs pay 6% for Sezzle. But value trumps cost. Sezzle generates incremental sales. Debit networks could partner and co-brand with BNPLs.

Networks looking to differentiate might take a cue from Cardlytics, which enables merchants to offer targeted cardholder promotions. Issuers generate fees and spend, and merchants happily pay fees for new sales.

Fiserv and FIS have huge payments ecosystems of banks and merchants. Fiserv's networks are enabled on one of every three debit cards. Delivering targeted promotions and reward-point spending would make them more attractive to merchants and issuers.

Brand-gelded national debit networks' ride in the slipstream of Mastercard's and Visa's names. Consumers don't know they have a Star debit card, much less prefer Star. No merchant accepts the national debit networks to generate sales.

While there are debit-network competition issues, and agendas and interests galore, there isn't a regulatory silver bullet. But fierce value-based competition from the national debit networks would be good for consumers, merchants, and banks, and keep the global networks sharp.

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