



The Merchant Advisory Group (MAG) appreciates the opportunity to comment on the House Financial Services Financial Technology Task Force Hearing examining “Is Cash Still King? Reviewing the Rise of Mobile Payments.”

The Merchant Advisory Group (MAG) was founded in 2008 by a small visionary group of merchants in the payments field dedicated to driving positive change in payments through multi-stakeholder collaboration. The MAG represents 160 of the largest U.S. merchants which account for over \$4.4 Trillion in annual sales at over 450,000 locations across the U.S. and online. Roughly \$3.9 Trillion of those sales and over 113 Billion card payments are electronic which represents approximately 59%<sup>1</sup> of total U.S. card volume. MAG members employ over 4 million associates.

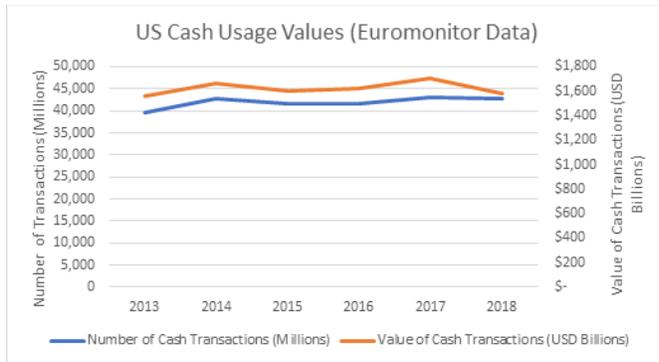
Merchants believe that competition, choice, transparency, innovation, safety, security, and balanced liability should be cornerstones of the U.S. payments system. Merchants prioritize the experience throughout the customer’s interaction regardless of channel. The payments transaction is one component of the customer experience, and merchants strive for their customers to have a seamless checkout. Friction during a transaction, whether in a physical location or in an online or mobile environment, leads to poor customer experience and cart abandonment. Retailers continue to accept many forms of payments, including new, innovative payment products and experiences being introduced globally.

Many payments industry experts project that mobile payments will continue to grow as a tender type. In the United States customers still use traditional payment tenders even as they are adopting other innovative ways to pay. According to Euromonitor, there are still more than 40 billion cash transactions annually accounting for more than \$1.5 trillion of annual expenditure in the United States.<sup>2</sup>

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<sup>1</sup> *Source of Total U.S. card volumes: Federal Reserve Payments Study 2016*

<sup>2</sup> Euromonitor International. “Financial Cards and Payments in the US.” October 2019.



Even as customers continue to use cash for transactions, digital experiences across a customer’s shopping journey are changing the payments landscape leading to growth in mobile and digital payments. Merchants prioritize a friction-free checkout experience as they think about the evolving way customers interact with them.

As the Task Force examines the use of mobile payments in today’s various shopping environments, it is important to first look at what constitutes a mobile wallet. Credit cards, debit cards, prepaid cards, gift cards, cash and checking account numbers (ACH) can be stored within various mobile applications (apps), mobile wallets, or online retail accounts. Customer access to these products and services along with improved U.S. payment infrastructure, such as the development of FedNow real-time payments, is critical to enhancing digital financial inclusion. The aforementioned products are generally available in a digital format and function similarly to how they do in a plastic, physical environment.

There are various types of mobile wallets including, but not limited to, retail-specific mobile apps, such as Starbucks, other downloadable payments apps, such as Venmo and PayPal, and wallets associated with the phone hardware, such as Apple Pay and Android Pay. A mobile wallet may have multiple ways in which a customer can interact with a merchant and pay for products. Some mobile apps utilize closed looped gift cards which interact through Quick Response (QR) codes and bar code readers, which are two-dimensional machine-readable codes usually consisting of a matrix of black and white squares containing data that merchants scan to process the transaction. Wallets like Apple Pay and Android Pay mostly utilize Near Field Communication (NFC) technology, which allows the customer to tap to pay at the point-of-sale (POS) terminal, for in-store payments. These wallets and others such as PayPal also perform web-based or in-app purchases where a customer can shop on the Internet from their phone or tablet. These types of payments are also considered mobile payments.

Bluetooth Low Energy Technology (BLE) enables the contactless data transfer of stored card information to merchants’ POS. In the mobile environment, BLE allows for a virtual card to be stored on a device and connects to the POS terminal and ultimately the payment network.

Magnetic Secure Transmission (MST) emits a signal emulating the information on a plastic card's magnetic stripe from the device to the POS terminal card reader when the device is in close proximity to the POS.

Merchants prefer to utilize emerging payments technologies that are competitive and transparent while offering security and safety for all parties to the transaction. Because of this, many merchants develop their own mobile wallet offering. In addition to supporting open-loop financial products, merchants' mobile wallets generally support their gift card products, which can be loaded with cash without any fees, providing a mobile entry point for customers who do not have access to credit cards or debit cards. This option gives cash preferring or unbanked customers greater accessibility because it lowers the barrier for them to utilize mobile payments and digital shopping options. Also, merchants who develop wallets tend to support QR and two-dimensional bar code scans, which can be enabled from a broader array of phones, compared to NFC which is more expensive technology usually found on higher cost phones.

A difference between a merchant wallet and an NFC wallet is that issuers are required to do specific programming ("provisioning") to make their cards functional in NFC technology. This results in fewer credit and debit cards being able to function in an NFC wallet and smaller banks and credit unions tend to be slower in their ability to add their products to NFC wallets, thereby limiting digital access for those institutions' cardholders. With an NFC wallet, the merchant risks losing control of how the product interacts with their customers and how much it costs to accept the payment. Merchants are interested in adopting new technology, but global card network rules and fees challenge merchant adoption because such rules and technology limitations may result in a costly, sub-optimal customer payment experience.<sup>3</sup> Rather than focusing on the network-owned NFC technology, which is really just a different way of doing the same thing customers have always done, merchants are looking to make the entire shopping experience easier for their customers. There are myriad examples of merchants implementing software-based experiences that are superior to the networks' costly, more fraud prone, hardware-heavy approach, including in the quick service restaurant industry. Customers can use mobile applications to order and pay ahead of their arrival. This allows customers to drive up and notify the restaurant they are in the parking lot, and the food is delivered to their cars.

The global card networks' honor-all-cards rule is one such rule that impedes merchants' acceptance of mobile wallets. The honor-all-cards rule is the global card networks' requirement that merchants who accept one of its payment products, such as a high-rewards Visa credit card issued by one bank, to accept all of its different credit card products from all issuers. Merchants have seen that the global card networks apply the honor-all-cards-rule to the digital environment, creating an honor-all-wallets policy. If a merchant decides to accept one NFC-based wallet,

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<sup>3</sup> <https://www.bloomberg.com/news/articles/2020-02-04/visa-is-planning-the-biggest-changes-to-swipe-fees-in-a-decade>

therefore “turning on” NFC wallet acceptance in the store, that merchant has to accept all NFC-based wallets due to the global card networks’ rules and the lack of technology to differentiate between the various NFC-based wallets. This ‘Honor All Wallets’ rule causes multiple issues which will ultimately impact customer experience. This rule effectively forces merchants’ hand on many of the most important aspects of pricing, technology, security, data management, and customer payment experience when considering payments acceptance options for their businesses.

Merchants believe alternative payments products and services, especially as innovation occurs at a rapid pace, are critical for broader mobile payments adoption in the U.S. One area that merchants see potential for increased competition, security, and efficiency in mobile payments and wallets is through faster payments. Currently, MAG CEO John Drechny sits on the Board of the U.S. Faster Payments Council (FPC), alongside representatives from two MAG member organizations. Last summer, the Federal Reserve announced they will develop FedNow, a new 24x7x365 real-time payment and settlement service to support faster payments in the United States.<sup>4</sup> Merchants believe that the Federal Reserve’s involvement will lead to competition and broader customer access for U.S. real-time payment services and offer merchants an additional choice as they weigh their payments acceptance options, and MAG is strongly supportive of these efforts. There are opportunities for use cases beyond business-to-business transactions, and merchants are eager to explore innovative payment experiences that utilize faster payments infrastructure and services.

The U.S. payments system is evolving, and many industry stakeholders are innovating to meet customer expectations and demand. Merchants place great importance on giving their customers a good, seamless experience regardless of the tender either at POS in a physical location or in a digital environment. Thank you for the examination of cash and mobile payments in the United States and for the opportunity to submit comments to the task force. MAG merchants encourage you to review [KnowYourPayments.com](https://www.knowyourpayments.com), an online educational resource operated by MAG, that provides information which may be helpful in your review of mobile payments. MAG and our member merchants look forward to working with you as you consider payments issues and the implications new technology has for merchants, consumers, and all other system stakeholders.

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<sup>4</sup> <https://www.federalreserve.gov/newsevents/pressreleases/other20190805a.htm>