The Three I’s of Debit Acceptance
CMSPI Speakers

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Presentation Agenda

**Section 1: Information**

The data requirements needed to drive accurate cost-saving initiatives

**Section 2: Incentives**

Understanding the true net benefit of effective routing, and a guide to driving value from incentives

**Section 3: Innovation**

How innovation is opening the door for merchants to streamline processes and optimize cost arrangements
Section 1: Information
What do you need to do to review your debit acceptance effectively?

**Understand your debit profile**
- Average Ticket Value – ATV
- Transaction amount distribution
- Regulated vs Unregulated
- Debit vs Prepaid

**Detailed reports of Debit transactions**
- Network splits and availability (BIN reports)
- Transaction level data

**Clarity on specific “least cost routing” logic**
- Dynamic versus static
- Least cost routing versus least cost billing

**Interchange, network and ancillary fees**
- Published rates based on your MCC
- Incentive agreements and clear understanding of contractual commitments
Asking the right questions...

- This data doesn't exist
- The data request is too large
- We don't share BIN level data with our merchants
- Our platform isn't compatible with your current infrastructure
- This feature will be available on our portal next FY
- You have the best debit arrangements of any of our merchants
- We only have the data available for a few months
- Your routing logic means that we can't implement this incentive

Merchant – “Can you provide me with visibility on the baseline for these calculations?”
Least cost debit routing is a complex subject!

Merchants need to collaborate with their payment partners to establish a robust review of debit acceptance (processors, networks and consultants).

Are you looking for ‘quick & easy’ results, and does this leave opportunity on the table?

Often taking the incentive that looks good on paper may mean strong gross savings but significantly smaller net benefit.

Different incentives/routing products are more suitable for certain industries.
Section 2: Incentives
Network Volume vs Cost

Regulated

Unregulated
The True Value of Your Incentives

Network 1
- Cost
- Incentive

Network 2
- Cost

Gross Value of Incentive
- Optimal Routing Benefit
- Net Value of Incentive
How Smart is Your Smart Routing?

- Least Cost Debit Savings Claimed
- Incentive
- Residual Least Cost Debit Savings
- Debit Routing Tool Fees
- Net Least Cost Routing Savings
Network Incentives – Key Considerations

- Baselines
- Ancillary costs
- Regulated vs Exempt deals
- Multiple network deals
  - Conflicting contingencies
  - Competitive tension
  - Innovation
- Small ticket opportunities and fee caps
- Ongoing monitoring of incentive performance
- Processor routing logic – can the acquirer incorporate your deals?
Section 3: Innovation
## Innovation in the Debit Space

### Processor Innovation

- Sophistication of routing products
- Certifications for PINless debit
- Reporting improvements
- Incentives available through processors

### Network Innovation

- PINless debit and small ticket
- Card present vs CNP
- Dual-message acceptance
- Creativity in incentives
- Tokenization
- Market shares
### Innovation in the Debit Space

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<tr>
<th><strong>Merchant Innovation</strong></th>
<th><strong>Market Developments</strong></th>
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<tbody>
<tr>
<td>✓ Hardware changes</td>
<td>✓ Consolidation of the market</td>
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<td>✓ Platform upgrades (CP and CNP)</td>
<td>✓ Secure Remote Commerce (SRC)</td>
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<td>✓ Unattended devices</td>
<td>✓ BIN enablement for PINless</td>
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<td>✓ Stakeholders responsible for payments</td>
<td>✓ Contactless card adoption/usage</td>
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Once you have evaluated your processor’s performance on all these areas, you can more critically determine whether the least cost routing fees they receive are fair.
Debit networks continue to innovate to capture new volume...

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<th>Creative incentives</th>
<th>New industries and CNP</th>
<th>Dual-message acceptance</th>
<th>Tokenization and SRC</th>
<th>Market shares</th>
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<td>Small ticket rates and PINless opening up new opportunities</td>
<td>Debit routing offerings aren’t limited to certain verticals</td>
<td>Innovation to compete in new environments – i.e. tip adjustments in restaurants</td>
<td>Potential threats to competition</td>
<td>With potential market consolidation, issuing patterns and greater ease in dynamic network routing, networks will need to fight to maintain strong market shares</td>
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Merchant Innovation

Card processing relationships have transitioned from being perceived as a commodity service towards being valued as true business partnerships in recent years.

A wider spread of internal departments being involved in “Payments”

Many strategic innovation decisions associated with payments are now being led by IT and Marketing, without always a true understanding of the cost impact.
Merchant Case Study – Example

What’s Happening?

Multi Billion dollar retailer - $65 ATV

PIN steering - Introduced new IT arrangements
Market Developments

**eCommerce**

- **CNP PINless**
  - Issuers enabling BINs
  - Increasing number of solutions for acceptance

- **Secure Remote Commerce (SRC)**
  - Customer UX and increased security
  - Network tokens and 3D Secure

**What else?**

- **Industry Changes**
  - Acquisitions. E.g. Fiserv + First Data
  - New entrants with dynamic platforms

- **Contactless**
  - Speed and level of adoption
  - Limitations on PIN debit for customer UX (no CVM)
### Six Key Takeaways for Merchants

Strategic debit routing offers merchants a tried and tested way to reduce acceptance costs. However, only some merchants are maximizing this opportunity. Ensuring you are educated on the areas below will ensure you can continually optimize your arrangements:

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<td>1. Understand the data you require to accurately assess your debit cost baseline</td>
<td>3. Your network deals must be reviewed by true NET benefit, rather than gross value</td>
<td>5. Be aware of the changing perspective towards payments and how this may influence your business</td>
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<td>2. Work with your partners to establish the true accessibility of data requirements</td>
<td>4. Make sure you understand your debit environment and routing tool so you can maximize savings</td>
<td>6. Processor, network and technology innovation mean regular ongoing reviews are essential</td>
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Any Questions?