

STABLECOINS

ON THE CUSP OF A BREAKTHROUGH



Digital currency that reflects the value of fiat money—usually the dollar—is increasingly moving into consumers' wallets. Here's why.

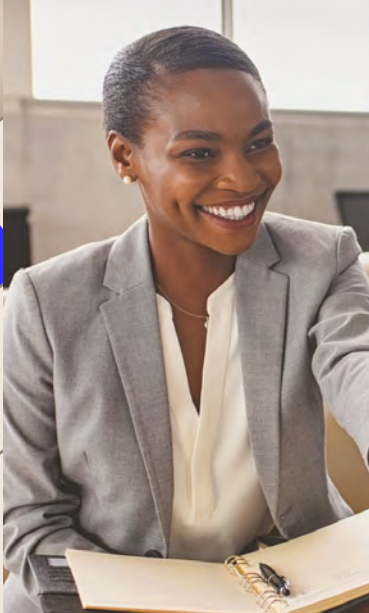
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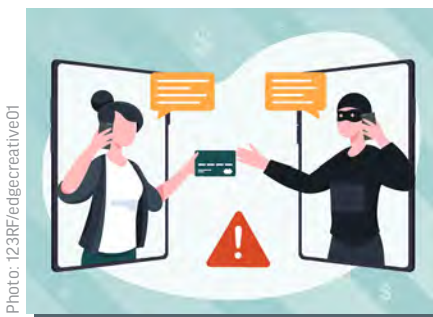


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RECKONING WITH AMERICAN EXPRESS

LEAVE IT TO a 176-year-old payments company to show the world how it's done.

Consumer business is on a sharp rise at American Express as the company reported last month its U.S. consumer-services unit posted an 11% increase in billing for the June quarter compared to the same period last year. That's the strongest boost in consumer business since the first quarter of 2018, according to the company.

What drove the results? AmEx credits its 42-year-old Platinum card for at least some of the pep in its consumer results. The card has added more than \$3,500 in new and increased statement credits, while its mobile app has been updated, all as part of a major refresh of the product in the second half of last year.

With the updates comes a big price jump. The premium card's annual fee has gone from \$695 to \$895. "For the second half of this year we have great momentum as we lap the Platinum refresh," AmEx chief executive Steve Squeri said during a July earnings call. "It's a great premium product that's very difficult [for a competitor] to replicate on a global scale."

With the refresh, AmEx is also looking to boost its stake in the restaurant business. Readers will recall It announced in June a \$700-million cash proposal to acquire The Fork, a restaurant-booking service operating in 11 European countries plus Australia and owned by TripAdvisor. "it's a great opportunity," said Squeri

Part of the reason for that "great opportunity" is the boost in average tickets a venture such as The Fork could offer. On Resy, an online reservation service AmEx acquired in 2019, spending by users is twice that seen on non-Resy locations, Squeri said, citing that statistic as "one reason we want to acquire The Fork."

Squeri added that the company is investing in technology for agentic commerce, which allows AI agents to shop and buy products online on behalf of consumers. But AmEx's take is that the shopping medium needs better consumer protections. "When we think about agentic commerce, how fraught it is with fraud and hallucinations, we'll be able to back our customers," he said.

Ever hear of "agentic insurance?" AmEx launched it a month ago. "People are a little nervous about interacting in this space. We hope they'll choose us because of our history of backing our customer," Squeri said. "We're not even in the early innings here. We're in the pre-season."

The formula still works. AmEx posted \$19.6 billion in revenue, up 10%, including net card fees that rose 16% to \$2.9 billion. Meanwhile, the fees merchants pay to accept AmEx cards, increased 9% to \$10.2 billion. With age comes wisdom.

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PRESSURE BUILDS ON FISERV AS AN ACTIVIST INVESTOR CHIMES IN

Pressure on a struggling Fiserv Inc. has mounted in recent weeks, and late last month an activist investor called on the big Milwaukee-based processor to divest assets that lie well beyond its two debit networks, which had been seen as likely asset dispositions.

In an open letter to Fiserv's board, Jana Partners Management LP urged Fiserv's board "to

take two further steps." The proposed actions include a review of the company's "entire portfolio" of products and services and an appointment of more board members "to address ongoing concerns regarding stewardship."

The push came weeks after news emerged that a consortium of big banks had conducted "tentative discussions" with Fiserv about a debit-network deal. The bank group reportedly includes JPMorgan Chase, Bank of America, Wells Fargo, and PNC Financial Services Group. Fiserv owns the networks Star and Accel.

New York City-based Jana began investing in Fiserv late last year. As of Aug. 1, it owned 4.4 million shares in the processor, accounting for almost 1% of Fiserv's equity. The firm would not comment beyond its letter. A Fiserv spokesman also refused comment on the matter. The company told the Reuters news service it is "executing with urgency and discipline."

In the letter to Fiserv's board, Jana managing partner and portfolio manager Scott Ostfeld praised

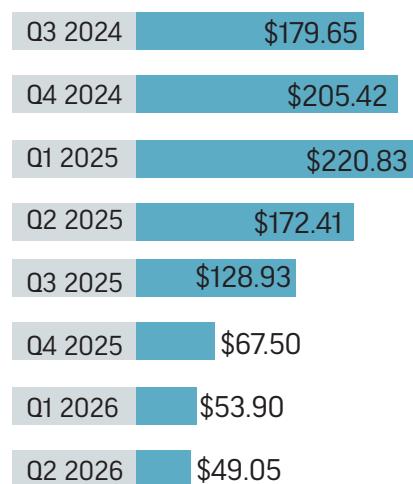
the company's move to investigate a potential sale of its "debit network assets," but pointed to "a highly tumultuous period for Fiserv" and a "dramatic earnings reset and a nearly 80% decline in its stock price from 2025 highs" as factors indicating "significant untapped value embedded in [Fiserv's] portfolio of assets." These assets, Jana argues, could fetch prices "well in excess" of Fiserv's stock value.

Ostfeld said recent board changes at Fiserv "have proven insufficient to remediate the Company's governance issues" that have "damaged the Board's standing with investors," a factor leading to Jana's push for changes on the board. Takis Georgakopoulos took over as chief executive in June and joined the board. A former head of JPMorgan Payments who joined Fiserv two years ago, Georgakopoulos succeeded Mike Lyons as CEO. Lyons had held the office for less than a year. Last year, the board added three directors following the departure of two veteran board members.

Fiserv's stock closed on July 31 at \$53.94 per share, after exceeding

A DIZZYING SLIDE

(Fiserv closing stock price, quarter's end)



Source: Nasdaq

\$70 early in the year (chart). The shares were selling well over \$100 as recently as last fall (chart).

Some payments observers express skepticism that pressure such as the move by Jana will result in fracturing the company. “I don’t believe this would eventually lead to a sale or breakup of the greater Fiserv enterprise. They are too large a force in the greater processing world, and are too intricately tied to so many partners, clients, and supporting vendors,” says

Cliff Gray, proprietor of Gray Consulting, a Chicago-based firm, in an email message.

Gray argues Jana’s logic could run into a metaphorical wall. “The four-party architecture of the payment industry—processors, issuers, acquirers, and networks—makes such a break-up wildly complicated,” he says. By contrast, a sale only of the company’s debit networks would be a more manageable option, he says. “While a sale of either, much less both, of their

debit networks would certainly have a measurable impact on the greater enterprise, it wouldn’t be a death sentence, either,” says Gray.

Fiserv over the past 18 months has wrestled with the results of a range of missteps, including earnings misses, big guidance cuts, slowing organic growth, and the abrupt departure of its chief executive, Frank Bisignano, who left to join the Trump administration last year.

—John Stewart

STRIPE AND ADVENT MAKE A PLAY FOR PAYPAL

PayPal is in play, as rival payments player Stripe has made an offer to buy the 27-year-old company at a reported valuation of more than \$53 billion.

The offer, at \$60.50 per share, is backed by both Stripe and Advent International, a global private-equity firm. That betters PayPal’s closing share price of \$57.21 as of July 31. Neither PayPal nor Stripe responded to requests for comment.

The bid was reportedly presented to PayPal early in July and proposes equal ownership stakes for Stripe and Advent, which adds the prospective buyers indicated no plans to disassemble PayPal.

PayPal replaced its chief executive in March, bringing in former HP executive Enrique Lores with a mandate to speed up growth. That move came after the departure of Alex Chriss, who had been CEO for two-and-a-half years. The company’s board had reportedly grown impatient with progress under Chriss,

particularly in branded checkout, a feature in which PayPal processes transactions under its own brand—for example, when consumers hit an online PayPal payment button at checkout—rather than operating in the background. The category grew 2% in the quarter, down from 5% a year ago.

The current offer follows an effort earlier this year by the two bidders to engage PayPal in acquisition talks, according to the Reuters report. No response was forthcoming from PayPal as of early August. Investors are said to be frustrated by the payments company’s performance, particularly with respect to the changes in top management and sluggish margin growth.

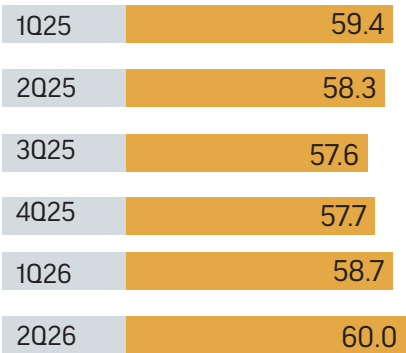
Joining Stripe would make PayPal part of a fast-growing payments platform that has grown fast into a juggernaut in niches that are bidding to burst into the mainstream, such as stablecoin payments. Founded in 2010, 12 years

after PayPal, Stripe processed \$1.9 trillion in payment volume last year, up 34% from 2024. By contrast, PayPal’s volume climbed 7% last year to \$1.79 trillion, a 7% rise. Most frustrating to investors is PayPal’s recent slowdown in branded checkout to rates as low as 1%

Some observers argue PayPal’s best option is to accept the offer.

PAYPAL’S TPA: BACK ON TRACK?

(Fiserv closing stock price, quarter’s end)



Source: PayPal

“It is good for shareholders, who have seen share prices decline substantially this year, and face little prospect of improvement, as the restructuring is expected to take years,” notes Aaron McPherson, principal at the payments consultancy AFM Consulting.

PayPal has seen its value shrink to a low at one point this year of

\$36 billion, 10% of its market capitalization in 2021. The company planned in May to cut roughly 20% of its workforce, which at the time totaled 23,800 employees, according to reporting at the time by Bloomberg and *The Wall Street Journal*.

Still, for its June quarter, PayPal posted a 9% rise in total

payment volume, to \$486.4 billion, on an 8% increase in payment transactions, to 6.75 billion. The popular Venmo peer-to-peer payment platform saw payment volume grow 14%, to \$86.2 billion. Active accounts, however, rose just 1%, to 439 million.

—John Stewart

BEHIND THE SURGE IN SAME-DAY ACH PAYMENTS

Same-day automated clearing house transactions continue to surge, reaching \$1.3 trillion in value in the second quarter, says Nacha. That’s up from \$980 billion in value in the year-ago quarter.

That value came on 435.7 million transactions, a 29.3% increase from 337 million same-day ACH transactions in the 2025 second quarter, says Nacha, the ACH governing body.

Same-day ACH, which had its start in 2016, is available for all ACH transaction types except international. Some same-day ACH use cases include urgent bill pay, refunds, tax payments, account-to-account transfers, and cash concentration movement.

“The breadth of use cases has not fundamentally changed, but the continued growth indicates that businesses, financial institutions, and consumers are increasingly taking advantage of the ACH Network’s same-day settlement capability,” a Nacha spokesperson says.

One factor that aids usage of same-day ACH is that banks and

credit unions are required under Nacha rules to receive same-day payments when participating in the ACH network, the spokesperson says. Also, no separate payment rail or new integration is needed to originate same-day ACH payments. Organizations that already use ACH can easily use the same rails for same-day ACH transactions, Nacha says.

“Although Nacha does not have a way to know which financial institutions are originating [same-day ACH] payments, the continued growth of [same-day ACH] demon-

strates its popularity,” the spokesperson says.

Stepping back and looking at overall ACH activity in the quarter shows that the total second-quarter 2026 volume of 9.3 billion transactions included 5.1 billion debits and 4.2 billion credits.

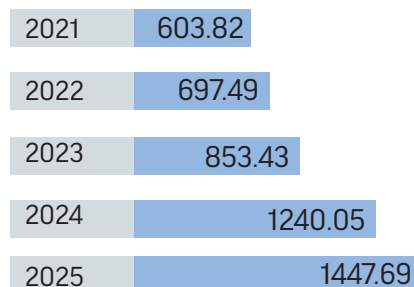
Internet ACH transactions, which are electronic money transfers using ACH, came to 3 billion in the quarter, up 7.6% from the year prior. Direct-deposit activity of 2.3 billion was up 3.6%, followed by business-to-business volume of 2.2 billion, a 9.9% increase. Healthcare volume of 141.4 million was up 2.3% and peer-to-peer volume of 136.6 million increased 21%.

“The growth in P2P volume is consistent with the continued consumer adoption of digital payments and P2P services offered through financial institutions and other providers. Consumers increasingly expect convenient ways to digitally move money between accounts and between people,” the Nacha spokesperson says.

—Kevin Woodward

SAME-DAY ACH’S RAPID RISE

(Credit and debit total payments in millions)



Source: Nacha

A CLOSER LOOK AT RTP'S INSTANT PAYMENTS GROWTH

Business-to-business payments were one of the first use cases for instant payments when the RTP network from The Clearing House Payments Co. LLC debuted in 2017. As more businesses and consumers want to use such services, the use cases are evolving, with digital wallets—like PayPal and Venmo—now being the largest use cases on the RTP network.

“We are now finding that customers, businesses, [and] individuals are finding more and more uses for instant payments almost daily,” says Jim Colassano, senior vice president of product development and strategy at TCH, which is owned by 25 large banks. Other uses, such as earned-wage access and early-wage access, are growing, as are gig-economy payouts, loan disbursements, and merchant funding used by Elavon, U.S. Bank, Square, and Stripe, TCH says. At the end of June, RTP had more than 1,300 banks and credit unions on its network, and 95% of them have less than \$10 billion in assets, according to TCH.

“We are seeing activity across the spectrum where customers are using it more and more,” Colassano says. “One of our biggest use cases is account-to-account transfers, where individual accounts and businesses ... are moving money between accounts they own.” Consumers, particularly, find instant payments valuable for online-gaming purposes, he says.

“They’re moving their money from those closed-loop systems into their banking accounts using the RTP network,” he says. “The reason for that is the instantaneous experience they get. They see the money move out of their wallets, and within the blink of an eye, the money is actually in their

bank accounts so they can use it.”

Businesses also see an advantage in the instant experience for their customers who may have had an issue with a service or product, he says.

Disbursements for customer complaints are a growing RTP use case. “We see a lot of that activity, where getting the money to the consumer as soon as possible to flip them from an aggravated, angry, and potentially lost customer into a very, very happy customer who now has the money in their account,” Colassano says.

Another use with high potential is request for payment. Known as RfP, this option enables billers and merchants to receive nearly immediate payment by sending a request through a network to customers and clients who have received services. FedNow, the real-time payment service from the Federal Reserve, also offers an RfP capability.

Colassano says RTP has RfP activity on the network, with 300,000 to 400,000 RfPs processed monthly, but it has had a slow adoption rate

for one specific reason. “It requires banks who receive that message to make changes to the way it’s delivered to their customer,” he says.

“So,” he continues, “it requires not only making changes to the payment application so that they can apply the money when they get it, but in this instance, we’re talking about a non-financial message that the banks have to ingest and then deliver it through their digital platform to their customers.”

The challenge of incorporating non-financial messages likely will be eased when RfP requests grow in volume, Colassano says. “We are seeing good usage for the number of use cases that [are] operating [on it] today,” he says. “But, we still need to increase that reach and the application before you’ll see that program scale.”

Other RTP mid-year data shows that the network processes an average of 1.5 million payments daily. These payments have an average daily value of more than \$6 billion.

—Kevin Woodward

MONTHLY MERCHANT METRIC Net Revenue Gross Attrition %

This is sourced from The Strawhecker Group's merchant datawarehouse of over 4M merchants in the U.S. market. The ability to understand this data is important as SMB merchants and the payments providers that serve them are key drivers of the economy.

All data is for SMB Merchants defined as merchants with less than \$5M in annual card volume.

Metric Definitions: (Only use definitions related to an individual month's release)

Account Attrition % - Total attrited accounts in given period divided by total portfolio active accounts from same period of the prior year

Volume Gross Attrition % - Total volume of attrited accounts from given period of prior year divided by total portfolio volume from same period of the prior year

Net Revenue Gross Attrition % - Total net revenue of attrited accounts from given period of prior year divided by total portfolio net revenue from same period of the prior year

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Date	Account Attrition %	Volume Gross Attrition %	Net Revenue Gross Attrition %
May'26 (T3M)	-22.9%	-15.1%	-20.8%



CHARITY AND PROFIT COMBINED BY DIGITAL MONEY

AMERICANS ARE CHARITABLE people, contributing more than half a trillion dollars annually to all sorts of causes. Americans are also sworn capitalists. They labor and sweat for profit. Why then not come up with a digital-money procedure that would combine these two drives into a win-win outcome?

We call this system a “White Ponzi” scheme. In a Ponzi scheme, early buyers who sell in time make a pretty penny, paid for by the majority who bought later in the game, thinking the price would keep rising and ending up empty-handed. Similarly, in a “White Ponzi” scheme, an enterprising mint will issue coins backed by thin air, pump their value to attract buyers expecting a yet higher price, and then let the coin collapse. As the price rises, the mint sells more coins (at higher prices), rounding up a big inflow of funds.

The mint will publicly commit to keeping a small fraction of the sales proceeds for operating expenses and a decent profit, but also commit the lion’s share to a non-controversial public charity, like an anti-cancer organization.

If these transactions are carried out by a coin like BitMint, where the traders are proved to

BY
**GIDEON
SAMID**

gideon@bitmint.com



be anonymous, then the mint can “fake” a wave of buyers, triggering a price rise for the issued coin. The fake trade will shuffle money from pocket to pocket, and cost the initiator of the fake price rise no money. But it will register a record that this coin minted for \$10 a coin, and soon traded for \$20, \$40, and more.

When similar coins are issued, the public is lured in, buying in order to sell later at a higher price. For buyers who ended up disappointed, the consolation prize is the knowledge that, say, 80% of the money they lost has been routed to a noble social cause.

A similar idea can be seen in lotteries, luring the public with a passive chance to win and assuring them that the high participation price is routed to a needy cause. The advantage in this “BitGood” money is that it is built for the AI age. On one hand, the BitGood mint will AI-optimize the initial price, plan the route of the “fake price rise,” be smart as to the level of dumping into the market at each price point, and so on. The traders

will use AI to optimize their participation strategy, based on analyzing an ever-growing number of BitGood coins minted one after the other.

Smart traders will walk away with a nice profit. They might buy BitGood coins for \$1,000, sell them at an average price of \$3,000 and pocket \$2,000. If \$800 of the purchase price was bought from the mint (and not from other traders), then the social cause at an 80% transfer would net some \$640 from the winning trader, and so much more from traders who bought from the mint at \$3,000 per coin. Remember: the traders are anonymous. Buyers don’t know if they buy from a mint representing buyers or from traders like them.

BitGood gives all players a chance to win big and give big!

Thank you, Bitcoin. Before you showed up, the idea of a coin or a banknote backed by absolutely nothing, while nobody promises to redeem it, would have been considered pure lunacy. The ultimate fate of Bitcoin is still a big question, but the idea that a community will trade on its own mood swings is here to stay. More creative ideas to mint “nothing” money and generate value through social influence will mark tomorrow’s financial reality. DT



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STABLECOINS: REAL VALUE OR TROJAN HORSE?

ONE PAYMENTS innovation that has the potential to turn into a Trojan horse for payments is stablecoins.

Stablecoins are a form of cryptocurrency where the value of each digital coin should not fluctuate. One of the obstacles faced by cryptocurrencies for payments is that fluctuating values have led investors and speculators to treat them as stores of value. Banks and merchants should look at the big picture before going all in on them.

Advocates say stablecoins have an advantage over traditional electronic payments in terms of speed and costs. And they tout the size of the market as a sign of rapid adoption. But a closer look reveals that stablecoins are not likely to take over consumer payments any time soon, though they may thrive in a business-to-business context.

An analysis by McKinsey & Company shows that, while stablecoin payments volume was around \$35 trillion in 2025, only about \$360 billion of that were true payments for goods or services. Trading and automated blockchain activity accounted for most of the volume, while payments for goods and services were primarily business-to-business and cross-border transactions. These doubled from 2024 to 2025, according to McKinsey.

This seems to correlate with research from the Federal Reserve Bank of Kansas City that shows the



BY BEN JACKSON

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share of U.S. consumers using any cryptocurrency has been small. It also found consumers' primary reason for using crypto is that the payee requested it.

Will stablecoins' speed and cost advantages lead to widespread adoption despite these trends? Some of these advantages might not hold as more businesses use stablecoins and traditional payments providers develop products to compete with them.

Like other cryptocurrencies, stablecoins rely on a distributed blockchain to complete transactions, so each transaction requires a network to update the blockchain. Stablecoins can settle more quickly than traditional transactions, particularly internationally. Transaction fees for stablecoins reveal signs that things could slow down.

Many stablecoins run on top of the Ethereum network. The network's site explains that transactions are final after about 15 minutes, but that during "high network traffic, you can speed up transactions by paying higher transaction fees, placing you ahead in line. Fees are split between validators and a burning mechanism."

As more traffic begins to use

these networks, costs may go up and the network may slow down, depending on volume and the availability of validators.

In addition to the prioritization fee, there is a "gas" fee, a base fee for using the network. With Solana and Ethereum, a portion of the fee is "burned," meaning that the value is deleted from existence as part of the transaction. So, while stablecoin networks do not charge traditional merchant-discount or interchange fees, they are not free. And the fees may catch up to those associated with traditional payments.

There are additional costs beyond the network fees. Merchants using the network need to buy a supply of the network's currency to pay for transactions. These transaction fees do not include withdrawal fees or conversion fees that might be required to move money into and out of stablecoin networks.

While stablecoins are developing, banks and merchants are looking at alternatives to manage transaction speed and costs, including pay by bank, real-time payments, and tokenized deposits.

Adding stablecoins to a payments strategy can make sense for payments providers and merchants. But they need to separate hype from reality and consider what stablecoin networks will look like in five or 10 years to make sure they don't trade one network for a new one that is different in name only. **DT**

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TIME TO FIX THE ECONOMICS OF DIGITAL TRANSIT PAYMENTS

Interchange and other transaction fees are growing unbearable for transit agencies. Here's a fix.

BY PAVEL ILIEV

Pavel Iliev is chief technology officer at Modeshift.

THE ECONOMICS OF transaction fees for digital transit fares isn't sustainable for transit agencies.

For an average U.S. transit fare of roughly \$1.50, interchange fees alone can consume up to 24 cents per transaction. That's 16% of the fare before additional processor costs, network fees, or vendor charges are added. Once the full payment stack is layered in, the effective cost of collecting a single fare could climb even higher for some agencies and fare models.

In other industries, losing that level of revenue in total fees would

be unacceptable. In public transit, it's something the agencies are expected to absorb.

As digital adoption increases, so does the volume of transactions subject to fees. The more successful modern fare systems become, the more fees they pay. It's time for the industry to rethink current payment models and reduce unnecessary costs so transit agencies can retain more of each fare they collect.

Digital payments save transit agencies money and time compared to cash collection. Typically, digital systems are operationally more efficient than traditional cash-handling, considering we see agencies spending 10% to 15%—and some even up to 40%—of fare revenue managing cash operations.

So the issue is not digital payments themselves, but rather how fees are structured in the United States and how many parties take a share of each transaction.

Many modern systems rely on open-loop bank card payments, meaning riders can simply tap their existing contactless credit card, debit card, or mobile wallet to pay their fare instead of using a separate transit card. This improves



Photo: 123RF/lauradalmu

convenience for riders but ties every fare directly to the traditional payments ecosystem and its associated costs. Each contactless tap can trigger multiple layers of fees.

Acquiring fees are paid to the banks and financial institutions that process and settle transactions. Interchange fees are paid to the rider's issuing bank through card networks such as Visa and Mastercard. Processing fees are then added by payment processors and transit payment technology providers that handle authorization, routing, and settlement.

On top of the core payments stack, some fare-collection and technology vendors apply additional transaction-based fees through per-ride pricing or revenue-sharing models. Combined, these costs significantly reduce the share of fare revenue that ultimately returns to the agency.

AGENCIES ABSORB THE COST

Transit agencies rarely can avoid these costs. Interchange and network fees are inherent to card-based payments. Processor costs are part of how transactions are routed and settled. As agencies adopt more contactless and open-loop systems, they become fully embedded in this structure.

Passing these costs directly on to riders is not a practical solution. Adding surcharges for using a card or mobile wallet introduces equity concerns and undermines the goal of seamless, easy payments. In most cases, agencies choose to absorb the cost rather than pass it on.

But it doesn't have to be this way.

When you compare U.S. total transaction fees to the rest of the world, you can see this structure isn't fixed. In parts of Europe, transit payments are treated differently at a systematic level.

Interchange caps in the EU are as low as 0.2% for debit transactions. Combined with system-wide fee regulation, there are significantly lower overall transaction costs for transit agencies. On top of that, vendors and technology providers typically structure their agreements as part of the overall fare-collection system, not as an additional layer on top of regulated payment fees.

While models are not identical across regions, the outcome is consistent: transit agencies get to keep more of their fare revenue.

In the U.S., there are early signs of movement in this direction. For example, the California Integrated Travel Project (Cal-ITP), working with networks like Visa, has helped introduce lower interchange categories for transit payments, reduc-

ing some of the highest card fees agencies face.

Both Visa and Mastercard also maintain transit- or passenger-transport-specific interchange categories with lower rates than standard retail pricing, proving that differentiated pricing for transit is possible and can be pushed further.

More transit-specific pricing models like these are needed in the U.S. for agencies to reach the same level of payment efficiency seen in other global transit systems.

RETHINKING HOW VENDORS GET PAID

Vendors and technology partners often use pricing models that tack on additional transaction-based fees on top of the underlying payment costs. That model deserves closer scrutiny.

A better approach starts with transparency. Agencies need a clear understanding of the full cost structure behind each digital fare. That includes interchange, network fees, processor costs, and any additional vendor charges. Without that visibility, it's difficult to evaluate alternatives or design more efficient systems.

Additionally, transit-technology providers shouldn't be increasing the cost of every fare by adding their



Iliev: More of every fare payment should be funding transit service, not transaction layers.

own per-transaction fees on top of unavoidable payment-processing costs. Vendor pricing models should be structured around delivering technology and operational value, not taking an additional cut of every rider transaction.

Alternative systematic approaches can reduce total fees. It's important for transit agencies to support multiple forms of payment rather than relying too heavily on a single payment channel. Open-loop cards play a significant role in modern transit systems because they improve convenience and reduce friction for riders, but they should not be the only option.

Closed-loop transit media, mobile ticketing, prepaid accounts, and other fare instruments can help distribute payment volume across lower-cost channels while still giving riders flexibility in how they pay. A more balanced mix reduces reliance on any single,

high-cost payment pathway and gives agencies greater control over the economics of fare collection.

Many agencies are also adopting rider-friendly approaches, such as fare capping, where riders automatically receive the best available fare once they reach a daily or weekly spending limit. While separate from payment processing itself, these types of flexible fare policies help modernize the rider experience without requiring agencies to depend entirely on open-loop bank card transactions.

A BALANCED MODEL

Contactless and mobile ticketing have delivered big benefits for riders and agencies and reduced the cost of cash-handling. The shift now is to make payment fees compatible with the financial realities of public transit.

This will require coordination across the ecosystem, including agencies, payment networks, processors, and technology providers. It also requires a willingness to challenge assumptions that have carried over from retail payments into a very different operating environment.

Transit agencies are not retail merchants optimizing for margin per transaction. They are public-service operators managing constrained budgets and fixed fare structures. Every additional layer of fees directly reduces the resources available for service, maintenance, and expansion.

A more balanced model is possible, where essential payment infrastructure is fairly compensated, but unnecessary layers of cost are reduced. At the end of the day, more of every fare payment should be funding transit service, not transaction layers. DT



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THE REAL FRAUD DEADLINE

Fraud strikes early and often, especially before holidays. Here's how fraudfighters prepare.

BY KEVIN WOODWARD

EVERY MERCHANT and payments provider would place “no fraud” at the top of their wish list for Santa Claus, but the reality of the situation is the most they could hope for is that each has to fine tune its fraud-prevention services well before even the first snow falls later this year.

Getting ready for online fraud in the busy fourth quarter means preparing much earlier in the year, often summer by the latest.

“There’s no quiet period, so to speak, from a fraud standpoint. But summer absolutely continues to be a major point of preparation for the

holiday season for Q4,” says Lenny Gusel, head of fraud solutions for Feedzai in North America. Feedzai, headquartered in Portugal with U.S. headquarters in New York City, is a fraud and financial-crime prevention platform.

“And that’s true for merchants, and it’s true for acquirers. It’s true for payment networks. It’s true for card issuers. It’s true for the networks. It’s true for anybody in financial services. The ... summer is kind of like the engine room. It’s the quiet time and it’s the engine room to be prepared for all the fraud preparation for Q4,” Gusel says.

That summer runway is shrinking from the other end, too — retailers’ own internal deadlines are pushing the real cutoff even earlier.

Many retailers lock down technology updates to their payment systems in October in what is known as a code freeze. “The honest answer is that fall is already too late for most retailers, and it comes down to operational reality rather than urgency for its own sake,” says Ruston Miles, chief strategy and development officer at Bluefin Payment Systems.

“Many large merchants lock down their payment environments in October he continues. “Code freezes go into effect ahead of peak



Photo: 123RF/edgecreative01



Winteregg: “Fraudsters may also test controls ahead of peak season, looking for thresholds, authentication gaps and accounts they can exploit once volumes rise.”

season, which means any change to fraud rules, authentication flows, or gateway configurations has to be built, tested, and stable before that window closes. If you discover a gap in September, you may not be allowed to touch your own systems in time to fix it.”

Observers across vendors, processors, and merchants agree that summer is more than an optimal time to get ready for the fourth-quarter shopping season. It could be the last window where changes can be tested safely before holiday sales volume makes changes riskier and more expensive.

Why is summer the last best opportunity? It’s because retraining fraud prevention takes time to vet and validate. Fraud models need a runway, Miles says.

“Machine-learning systems learn from clean transaction data, and holiday shopping behavior looks nothing like the rest of the year—new devices, new shipping addresses, gift purchases that break every pattern a customer has established,” he says. “Models retrained in summer give teams months to back-test, tune thresholds, and chase down false positives before that behavioral shift hits. Models retrained in November are learning during the storm.”

“So, summer preparation isn’t about being extra cautious,” he says. “It’s about the fact that the

last responsible moment to make meaningful changes comes earlier than most retailers think.”

THE AI EFFECT

All the steps that go into ensuring fraud-prevention models are ready take time. “If you want to have your fraud-detection models effective and stable by Black Friday, you need to start in the summer building and/or optimizing them,” says Dan Frechtling, senior vice president of product and strategy at LegitScript, a Portland, Ore.-based risk and compliance platform. “Fraud-model retraining, validation, threshold tuning, and A/B testing against production traffic realistically take a full quarter.”

Then there’s operational and change-control lag. It takes time to see how any changes interact with live transactions. Even tools using artificial intelligence may not be able to replicate a live payments environment and all its nuances, observers say.

“There’s no doubt AI has accelerated an organization’s ability to process data, separate the signal from the noise, however you want to qualify it,” says Chris Kronenthal, president of Philadelphia-based FreedomPay.

AI can only do so much, especially when assessing all the changes a payment system and its

fraud-prevention rules might need. Even AI isn’t an overnight solution.

Take a retailer who, for example, wants to make three changes before the holiday season. That immediately sets a deadline of the first week prior to Thanksgiving and its traditional kickoff to holiday shopping. “Now, you’re into the first week, maybe as a last resort, of November,” Kronenthal says. “You’ve then probably got a reasonably compelling change-control process that isn’t going to be overnight.” That’s why, by getting ready in the summer, “what you’re actually talking about is deploying something in late September or early October to give you at least one of data collection, analysis, and correction,” he says.

Payments providers, too, need time to adjust and implement changes their online merchants want to make. “Effective fraud-prevention guardrails take time to build and validate,” says Stephanie O’Connor, director of operations and merchant experience at Madison, Wis.-based Wind River Payments.

“After putting a new rule or strategy into effect, retailers often need weeks of transaction data to understand how the changes they made are impacting fraudulent transactions, and to ensure that legitimate customers are not getting bogged down by unnecessary friction,” O’Connor says. “Most of the time, making updates also requires coordination with a retailer’s payments processor or authentication provider, which can take time – especially when those teams are also gearing up for the holiday rush.”

ACCOUNT TAKEOVER

There's also a mirror-image reason summer matters: criminals are using it to prepare as well. That testing takes a recognizable shape. Criminals probe for weak points, then exploit what they find. Account takeover is when a criminal gains access to a legitimate customer's account. It is expected to be a significant problem again.

"They're opening accounts, testing stolen credentials, building synthetic identities, and probing for weaknesses well before peak season begins," says Marc Hebbard, senior director of strategic risk services, at Itasca, Ill.-based Accertify. "And the risk does not end at onboarding. An account that passes an initial identity check can become compromised or display suspicious behavior later."

"That's why retailers must have strong, continuous analysis practices in place ahead of the holiday season," Hebbard adds. "This practice should be baked into their fraud strategy so they can detect account takeovers, post-onboarding fraud and changes in user risk throughout the customer lifecycle."

That reconnaissance isn't passive. Fraudsters are actively testing what works. "Fraudsters may also test controls ahead of peak season, looking for thresholds, authentication gaps and accounts they can



O'Connor: "Retailers often need weeks of transaction data to understand how the changes they made are impacting fraudulent transactions."

exploit once volumes rise," says Joel Winteregg, chief executive of Vyntra, a transaction-insight and financial-crime prevention firm.

Gusel says criminals will test their workflow, many times opting for low-volume and slow types of attacks to map a Web site and test its infrastructure. "They're also creating various kinds of synthetic accounts so that they can be aged and ready to go for that," he says.

Account takeovers and synthetic identities are, sadly, venerable elements of fraud year-round. It's these types of identity-based threats that have overtaken stolen card fraud, Gusel says. These threats were a major problem in the 2025 fourth quarter, and Gusel expects they will be this year.

"We saw account takeover at scale last year," he says. Account takeover has long been an issuer-side problem, but Gusel says the difference now is scale, and it's hitting merchants directly.

Account-takeover attacks came for merchants last year at scale, too, Gusel says, adding that these attacks are very successful, easy,

and lucrative for criminals.

"Fraud continues to move beyond stolen payment credentials toward identity-based attacks. Business-email compromise, account takeover, synthetic identities and social engineering target operational processes rather than payment systems alone," says Dan Zimmerman, chief product and technology officer at TreviPay Inc., an Overland Park, Kan.-based payments provider.

Identity fraud isn't limited to the consumer side of a transaction—it can hit a merchant's own business identity as well. "A compromised business identity can lead to fraudulent credit approvals, invoice diversion or unauthorized purchases that aren't discovered until goods have shipped or payment terms have been extended," Zimmerman says.

NOT-SO-FRIENDLY FRAUD

First-party fraud also grew last year and is expected to remain a problem. First-party fraud is when a cardholder disputes a legitimate purchase with the issuer. It's likely little surprise that social media is one factor in the attractiveness of first-party, or friendly, fraud.

"Friendly fraud now accounts for up to 80% of digital-goods fraud," Frechtling says. "Many fraud systems are oriented toward



Kronenthal: "There's no doubt AI has accelerated an organization's ability to process data, separate the signal from the noise, however you want to qualify it."

third-party fraud, such as stolen identity. They are less attuned to legitimate customers disputing legitimate purchases. This type of fraud has been fueled by two factors: social-media content teaching schemes to consumers and paid intermediaries working unethically on behalf of buyers.”

Setting first-party fraud rules and transaction policies can require delicacy to avoid harming a legitimate customer. “Chargebacks are frequently a gray area,” O’Connor says. “In some cases, a legitimate customer may file a chargeback claim simply to get out of paying for a good or service they intentionally purchased. This is also commonly referred to as ‘friendly fraud’ although there truly isn’t anything friendly about it.

“On the other hand,” he adds, “a good portion of these fraudulent claims come from customer confusion. Shoppers may see a charge they don’t recognize on their statement weeks after a purchase and dispute it, only to realize later that it was actually something they had bought. These situations often point to breakdowns in the customer experience rather than poor fraud-prevention strategies, and can be solved with clearer billing descriptors, proactive order confirmations, shipping updates, and easy access to a customer’s purchase history.”

AGENTIC FRAUD

Criminal use of AI will continue to be a problem as it was last year, but consumers who make an agentic commerce purchase, in which an AI agent is authorized to act on behalf of the user, also could pose an issue with chargebacks, Kronenthal says.

Despite two-factor authentication measures to approve an agent’s basket, there could be more chargebacks in agentic-commerce transactions, he says. “At the end of the day, folks are going to say, ‘Well, you know, I didn’t understand what was in my basket. It wasn’t what I actually ordered.’”

Experts point to a few concrete starting points. Begin by auditing last year’s data—approval rates, decline reasons, chargeback causes—before touching any current rules, and check whether tools already under contract with existing vendors can cover a gap before buying something new.

From there, retrain models on fresh data and validate them well ahead of the holidays, then stress-test the full decision pipeline so weak points surface before peak volume does. Passkey authentication for account logins is a frequently cited add-on, because it replaces passwords with a device-based cryptographic key unlocked by biometrics or a PIN.

None of this works in isolation, though—it depends on merchants bringing processors and gateways into the conversation early. “Fraud prevention is most effective when merchants, processors, acquirers, and technology partners share information rather than operating independently. The more coordinated those relationships are before peak season begins, the faster merchants can respond when attacks occur,” Hebbard says.

O’Connor agrees. “Payments processors and gateways have more visibility into fraud patterns than a merchant ever will, and they should share fraud intelligence, recommend fraud-rule adjustments, and help merchants optimize their fraud-prevention strategies ahead of the peak holiday season,” she says.

Counteracting online fraud in the fourth quarter won’t be done with one service or one tweak. The shared caveat is that no single tool alone works. The value lies in connecting the data and signals across systems.

“Technology is most effective when it operates within connected payments infrastructure rather than as standalone security layers,” Zimmerman says. “Bringing together identity verification, credit decisioning, and transaction data allows merchants to identify suspicious activity earlier while preserving the frictionless purchasing experience legitimate buyers expect.”

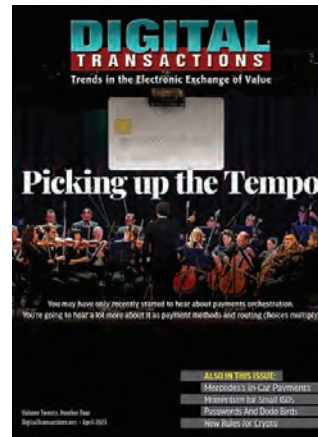
As Miles says, summer preparation isn’t about being extra cautious. “It’s about the fact that the last responsible moment to make or bake in meaningful changes comes earlier than most retailers think.” **DT**



Hebbard: “They’re opening accounts, testing stolen credentials, building synthetic identities, and probing for weaknesses well before peak season begins.”

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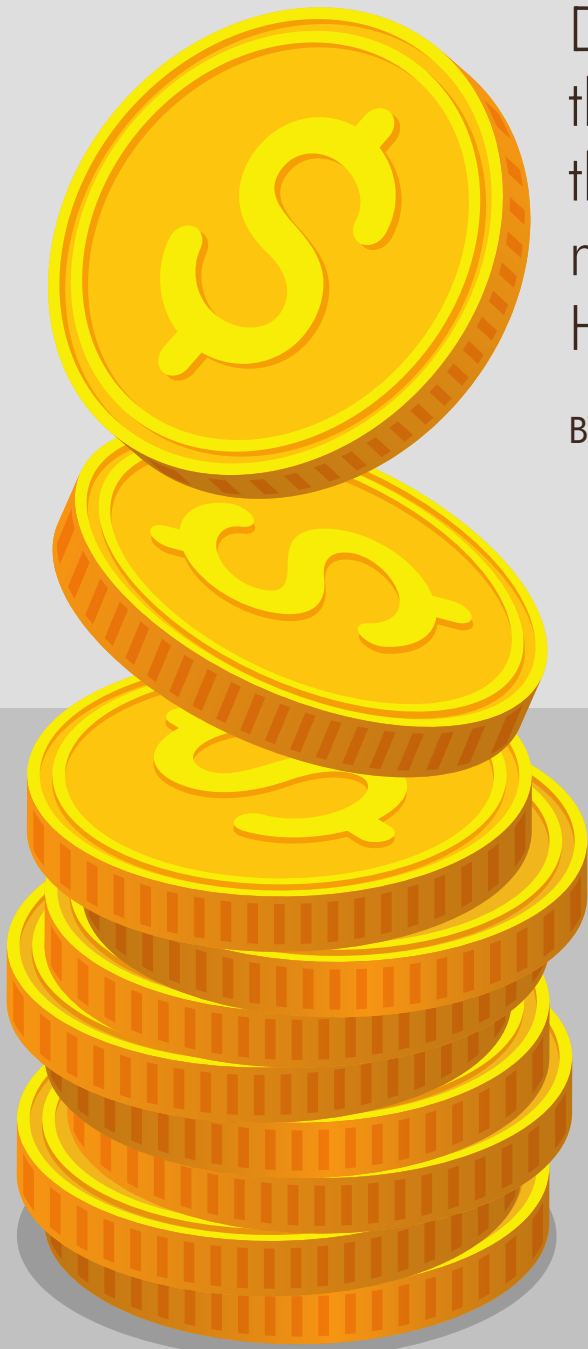
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STABLECOINS

ON THE CUSP OF A BREAKTHROUGH

Digital currency that reflects the value of fiat money—usually the dollar—is increasingly moving into consumers' wallets. Here's why.

BY JOHN STEWART



The financial industry has been hearing a good deal lately about stablecoins. And for good reason: the digital currency offers sleek transactions that process in seconds and settle in minutes, pleasing merchants that have tired of the cost of waiting for card settlements.

Payments using stablecoins can be settled natively or as a debit card transaction, with the former option hitting merchants for a few cents in acceptance costs. That's considerably less than what merchants pay for either debit or credit card transactions—the dominant electronic medium for payments—using dollars, though sellers must contend with the fact that crypto transactions, once accepted, are final.

Those speed and cost advantages are shoving stablecoins—digital representations of a fiat currency, often the U.S. dollar—into the limelight lately, and positioning them to be a major medium of exchange, especially as they offer a drastically lower fraud risk along with faster settlement.

So, how long before stablecoins take their place as an everyday payment option, on par with cash, checks, and cards? Observers see consumer usage at the point of sale lagging for now, as wallet-to-wallet usage remains specialized and consumers are only recently adopting cards backed by digital cash. And cryptocurrency transactions are always final, so consumers don't have a recourse once they've spent their holdings.

By contrast, specialized applications, like cross-border transactions, are catching on to the speed and cost advantages of digital currencies. And other markets, too, are ripe for stablecoins, observers say, outside of store venues, where consumer credit cards reign supreme.

"Where you actively will see stablecoins used is paying rent or a mortgage or a vendor or supplier, like where there is not a [point-of-sale] terminal," says Alex Treece, co-founder and chief executive at Stablecore, a company that assists banks in adopting stablecoins and tokenized deposits, a medium often seen as an alternative to stablecoins.

IT'S IN THE CARDS

Such transactions are being made easier by an influx of cards, typically debit cards, backed not by ordinary cash

but by stablecoins. This trend has emerged alongside a steady rise in the supply of stablecoins, whose capitalization stood at \$310 billion in late July, up 17% from the same time last year.

These cards aren't new—the Tether platform issued the first one in 2014—but they're making it easier for ordinary consumers to spend their holdings without fussing with the intricacies—and often alien-sounding language—of blockchains.

The industry is likely going to see more and more of these cards, even though they bite into the huge acceptance-cost advantage of native transactions. "I'd expect card-mediated stablecoin spending to keep growing at high rates over the next three to five years, but for...direct, on-chain consumer payments to vendors to stay a long-tail use case," says Maghnus Mareneck, co-chief executive and cofounder of Cosmos Labs, a developer of digital-ledger technology based in New York City and Berlin.

The shift to cards could prove a boon for high-profile networks like Visa, which processed \$5.2 billion in stablecoin card volume last year, up 319% over 2024, the network reported. This remains a small fraction of Visa's total card volume—specifically, 0.04%—but it "signals both the opportunity ahead and how early we still are in this evolution," said Dan Roesbery, a Visa vice president, in a post on the Visa Web site in March.

Part of the reason for the rising interest in attaching stablecoins to cards is that networks like Visa offer global scale and a well-known brand. More important, they offer well-founded connections to merchants and merchant processors. These advantages solve a significant problem for merchants and consumers alike in that they overcome the often unfamiliar—and intimidating—processes associated with direct crypto spending.

"I'd expect card-mediated stablecoin spending to keep growing at high rates over the next three to five years, but for these direct, on-chain consumer payments to vendors to stay a long-tail use case," says Mareneck.

THE AGENTIC ANGLE

Still, some observers argue there can be advantages in certain cases to direct stablecoin payments unmediated by card networks, despite what for novice users is a confusing array of terms and processes.

“There are two areas where stablecoins have a real path to being cheaper and less frictional than the card network—not just an alternative to it,” says Dmitri Tokarev, co-founder of Bron.org, a London-based cryptocurrency-wallet platform. These areas, he argues, are agentic payments and cross-border transactions.

For agentic commerce, stablecoins by their very nature—digital, programmable, software-based—are the obvious choice when the time comes to execute payments, Tokarev argues. “As more of us delegate work and shopping to agents, machine-to-machine settlement in stablecoins is the obvious rail,” he says.

Circle Internet, issuer of the major stablecoin USDC, agrees. In May, the New York City-based company said it would roll out what it called “agent wallets” with the intention of becoming what chief executive Jeremy Allaire called an “agentic, AI-driven company.”

Already, Allaire said during a conference call to present Circle’s March-quarter results, the company had launched what it calls its Circle Agent Stack. “If you’re a platform company like Circle, it’s very clear agentic automation is going to be central,” he told equity analysts listening on the call. “We’ve made that a huge priority at Circle.”

If that didn’t make his point clear, Allaire added that the “agentic economy is where the entire economy is heading.” USDC, as well as the company’s new Arc network, are being positioned “to take advantage of that,” he said. Arc is a blockchain capable of transaction settlement in less than a second. It launched in October with

a client list that includes Visa as well as Blackrock and Goldman Sachs.

Tokarev’s case for cross-border stablecoin payments focuses not on big corporations but rather on consumers traveling abroad. “Particularly for tourists,” he says. “Europeans and Americans are used to paying for almost everything by card.” The problem is that local payment rails in various places like India, Brazil, or the Philippines “are often faster and cheaper for merchants than Visa, but [tourists’] cards simply do not connect to them,” so the “Western tourist just falls back to cash.”

The lesson, Tokarev says, is that a “wallet that holds stablecoins and settles directly into the local rail through a regulated [foreign-exchange] provider would solve a real, daily problem.” That wallet may be coming. Says Tokarev: “Projects in this space already exist, and we are likely to see meaningful progress over the next few years.”

‘ASTONISHING LEVELS’

Meanwhile, payments operators in the U.S. market are feeling their way around in this new world of tokenized money linked to a fiat currency. How, for example, can networks prompt usage, especially among consumers? The fiat payments world might resort to rewards, and that’s exactly what some observers see coming for stablecoins.

That’s a touchy subject, especially among banks keen to keep control of their deposits. Major federal legislation called the The Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act, which will take effect in January, bans interest, cash, tokens, or other yield on stablecoin accounts. But there are loopholes of a sort that nonbank players could exploit.



Grover: “You can pay some sort of reward for certain activity. Banks don’t like that.”

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Rewards on stablecoin spending, for example, are not explicitly banned by law. If issuers adopt these inducements, banks may be forced to bump up their rates to retain deposits. “You can pay some sort of reward for certain activity, to incent people to put funds into stablecoins,” notes Eric Grover, principal at the payments advisory Intrepid Ventures. “Banks don’t like that.”

Up to now, with or without rewards, much of the spending on stablecoins has been concentrated in business-to-business transactions and institutional trading, says Lee Trett, who follows crypto as director and co-founder of Money HelpDesk, a United Kingdom-based rate-comparison site and money advisory. But Trett sees more vigorous consumer payments activity on stablecoins coming, based on a perkier market lately.

“When we isolate real-world, consumer-to-business payments, the numbers are smaller but growing steadily,” Trett says. “To put it in perspective, consumer-to-business stablecoin transactions more than doubled year-over-year recently. If organic growth continues and everyday utility increases, overall stablecoin transaction volume could reach astonishing levels within the next decade.”

Pending federal legislation, the Digital Asset Market Clarity Act, defines which digital assets are securities and which are commodities and requires that digital-asset companies maintain a separate fund for customers to guard against bankruptcy risk. That bill passed the House and is under consideration in the Senate.

‘GENERATIONAL TRANSFER’

Trett’s forecast implies mass stablecoin adoption. While others are more cautious, they agree that the conditions

are right for widespread consumer uptake. It’s just hard to pin down the timing. “I don’t think we’re there yet in terms of mass consumer adoption but it’s on its way, with a number of related factors driving the change,” says Robin O’Connell, chief executive for enterprise at Uphold Inc., a multi-asset trading platform based in New York City.

O’Connell’s theory is that younger generations are more open to crypto generally than their elders—and they’re coming into money. “We’re on the cusp of the biggest-ever generational transfer of wealth with younger generations set to inherit \$84 trillion from their parents and grandparents between now and 2045,” he notes.

That inheritance will translate into active use of crypto, including stablecoins, he predicts. “Younger generations typically hold a higher proportion of their assets in crypto,” he says. “With stablecoins offering a bridge between cryptocurrencies and the fiat world, we’re going to see growing numbers of people holding stablecoin deposits as part of their ongoing financial management.”

That inherited wealth, in turn, will induce more widespread merchant acceptance. “Mainstream retailers will increasingly want a way of capturing some of these funds. The ability to accept stablecoins for regular payments will become a source of competitive advantage within the next few years, until every retailer decides they need to catch up,” O’Connell says.

If O’Connell and other observers are right, the payments industry is about to see a major—and lasting—shift into cryptocurrency, and more specifically into digital dollars. And not just for trading or hoarding. That crypto will be spent. And merchants will happily accommodate the trend. **DT**

TOP 5 STABLECOINS BY MARKET CAP

1. Tether	\$184 billion
2. USDC	\$72.6 billion
3. DAI	\$4.64 billion
4. World LibertyFinancial	\$4.1 billion
5. Ethena USDe	\$3.97 billion

Note: As of July 26, 2026.
Source: Coinmarketcap



WHEN YOU WIN PAYMENTS, YOU WIN THE CUSTOMER

Never underestimate the power of payments to build loyalty—and to rebuff even loyal users if not done right.

BY PRAKASH NATARAJAN

Prakash Natarajan is senior managing director, payments advisory, at Strategic Resource Management.

CONSUMERS MAKE AN average of 48 payments per month. That is 48 moments when a financial institution either shows up in a customer's financial life or does not. Multiply that across millions of customers over months and years, and the gap between showing up and being absent stops being a service-quality problem. It becomes a revenue problem, and eventually an existential one.

Payments are no longer a back-office function or a product line to be managed, priced, and handed off to a core provider. They are the primary transac-

tion medium between customers and their financial life. Increasingly, that contact is happening somewhere other than at a bank or credit union.

Peer-to-peer payments platforms, digital wallets, embedded finance at retail checkout, and buy-now-pay-later at the point of sale all play that pivotal role of eliminating friction in payments. It is no surprise that they are already capturing transaction volume, gaining deposit share, and winning the top-of-wallet status that banks and credit unions once held by default.

It is quite evident now that the institution that reclaims the payment experience wins primacy. The one that continues treating payments as peripheral infrastructure will find itself holding accounts for customers whose financial relationships live somewhere else.

HOW WE GOT HERE

Fintechs did not build fundamentally superior infrastructure. They removed friction from the experience of moving money. Early paycheck access, instant card activation, and onboarding with a branch visit did not require a technological

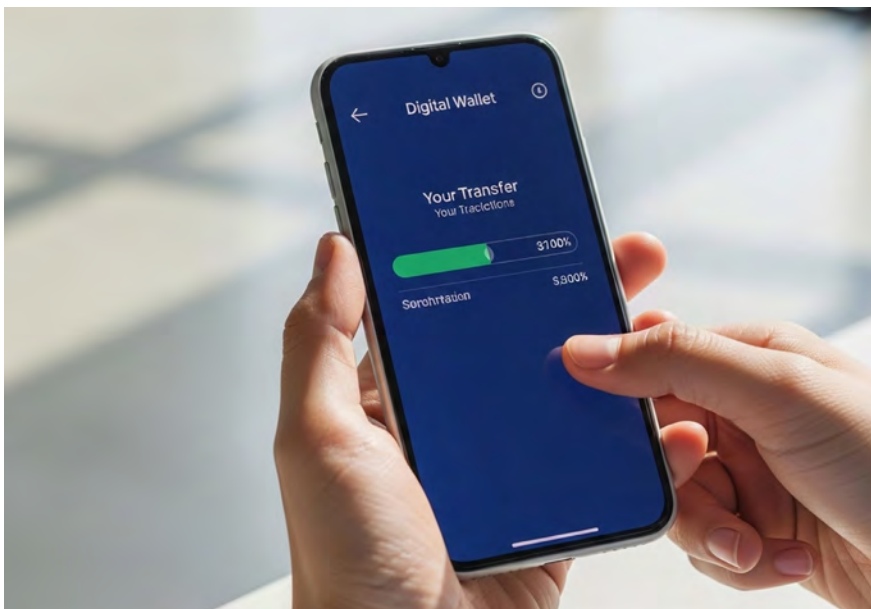


Photo: 123RF/zrzahid

breakthrough. They are experience decisions that traditional institutions could have made years earlier. But most did not or were not able to.

The consequence of this extends beyond transaction volume. Customers whose primary payment activity migrates to a fintech do not simply move transactions. They move attention, loyalty, and, eventually, balances. The financial institution retains the account but loses the relationship.

The loyalty data are unambiguous. Among credit-union members whose CU-branded card is their primary payment method, the likelihood they will leave drops by 57%, according to a 2025 Velera/PYMNTS study. That is not a preference signal. It reflects something structural about how payment engagement anchors a broader financial relationship in ways that few other product interactions do.

This pattern holds for commercial customers as well. Small and mid-size businesses that receive integrated tools connecting payments, payroll, and cash flow through a single institution tend to concentrate their activity there rather than managing fragmented solutions across multiple providers. Integrated payment

capability becomes the stickiest thing an institution can offer.

What is important is that it is not the transaction itself that drives this loyalty. Moving money is a commodity. What creates retention is the value built around the payment: settlement speed, real-time visibility, a sense of control, and the feeling of being understood rather than processed. That last quality is where most institutions have the most ground to recover.

DATA AS DIFFERENTIATOR

Every transaction is a behavioral data point. Taken together, these data points describe a customer's financial life in more granular detail than any survey or conversation with a relationship manager ever could. The institutions that extract and act on that signal will pull away from those that let it sit.

Today's customer base spans four generations with different surface-level expectations. But the common thread is a desire to feel known and to experience interactions that reflect their real circumstances rather than generic product offers. Institutions that use payments data to deliver contextual guidance, proactive alerts, and relevant offers at the right moment

are turning a transactional relationship into something closer to a trusted advisory one.

As an example, Bank of America's Life Plan illustrates what that looks like at scale. By integrating goal setting, personalized guidance, and financial tracking into its mobile platform, the bank has turned payment data into deeper relationships. Eleven million customers have enrolled, the program has brought in \$60 billion in net new deposits, and two-thirds of those enrolled are millennials or Gen Z. While the scale is specific to Bank of America, the underlying logic applies regardless of asset size.

Emerging payment models are already reshaping where customers choose to engage financially. Platforms such as Coinbase, Robinhood, Cash App, and PayPal have attracted millions of users—not by becoming full-service banks, but by embedding new forms of money movement directly into intuitive digital experiences.

Coinbase and Robinhood introduced seamless crypto trading and stablecoin transfers that appealed to younger, digitally native consumers seeking faster, borderless financial activity. Cash App and PayPal normalized instant peer-to-peer payments and digital



Natarajan: “Engagement leads to more data, which enables better personalization and stronger retention.”

wallets long before many traditional institutions offered comparable products.

In many cases, customers did not move their primary accounts immediately. But they did shift engagement, transaction activity, and financial attention. As real-time payment networks like RTP and FedNow expand and as stablecoins move closer to mainstream commerce, payment preference will increasingly follow the platform that delivers the fastest, simplest, and most flexible movement of money.

For banks and credit unions, the risk is not just losing transactions, but losing the daily customer interaction that ultimately drives loyalty and growth.

THE UNSOLVED PROBLEM

Most bank and credit union leaders understand what a good payment experience looks like. The harder problem is that years of layering point solutions onto legacy infrastructure has created fragmented ecosystems that resist coherent integration. Each isolated decision adds more features but reduces overall cohesion.

Closing that gap requires discipline across three areas. First, product strategy. This is an area that demands an honest assessment of gaps across various payment methods, including real-time payments, embedded finance, and cross-border capabilities, along with a clear view of what to build versus what to source through partners.

Next, operations strategy. This requires an organizational and capability refresh to drive efficient

infrastructure designed to scale through optimization and automation rather than by means of proportional headcount growth.

Finally, vendor strategy, which is often the most underexamined of the three but can be a critical enabler. The question is not just whether a partner delivers a capability, but whether contract structures, pricing, and roadmap alignment support the institution's direction over time, and more important, how a particular vendor product fits with other products within the organization. Legacy vendor relationships often constrain more than they enable. Moreover, renegotiating them is difficult work that often gets deferred.

Fintech partnerships remain essential to closing capability gaps. Partnership without governance can recreate the same fragmentation institutions are trying to solve.

THE WINDOW IS OPEN

Customers today spread their activity across banks, fintechs, and embedded-finance providers, but they concentrate engagement with whichever provider shows up consistently in their daily financial lives. Payments are where that presence is either established or lost.

The institutions that invest in integrated, intelligent payment experiences earn primacy that compounds over time. More engagement leads to more data, which enables better personalization and stronger retention.

Those that continue treating payments as infrastructure will find themselves holding accounts for customers whose loyalty lives somewhere else. **DT**

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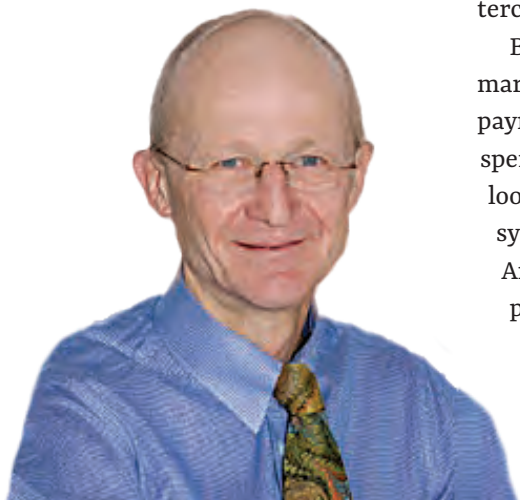
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BEHIND THE NEW PAYMENT STRATEGIES

Debit regulation coupled with legal challenges have led to a new world of card competition. Hint: It's looking good for fintechs.

BY **ERIC GROVER**

Eric Grover is principal at Intrepid Ventures.



OPEN, GENERAL-PURPOSE retail “card” payment networks were the greatest payments innovation of the 20th century. Mastercard and Visa, liberated from association governance since their IPOs in 2006 and 2008, have flourished worldwide. Their ever-expanding network reach continues to increase total ecosystem value.

While two- and three-party payment systems owning the payor and payee relationships offer greater control and transaction economics, they’ve ceded share to open payment networks.

In 1982, the U.S. private-label credit card systems controlled 58% of total card spend. Closed-loop payment network American Express had a 12.6% share and open bank-card payment networks Mastercard and Visa had 29.4%.

By 2024, in nominal terms, the market was 60 times larger. Open payment networks’ share of card spend had grown to 83.5%. Closed-loop general purpose payment systems held on to an 11% share. And proprietary cards’ share had plummeted to 5.5%.

The threat of more punitive regulation and the lure of profits have spurred fresh challenges to the open payment-network model.

The Durbin Amendment in 2011 imposed debit-interchange price controls on financial institutions with over \$10 billion in assets. Now—with additional cuts in debit interchange likely, a battery of state proposals to cap interchange fees, and a barbell of progressive Democrats and populist Republicans backing the Credit Card Competition Act—relying on Visa’s and Mastercard’s open four-party interchange rails poses risk.

Debit interchange is all but certain to be further reduced, squeezing if not destroying large banks’ debit economics. In 2023, the Fed proposed reducing it by 28%. After protests from banks and merchants, it stayed its hand. It can’t stay its hand forever. The Fed is an instrument of the law, not the law.

Sophisticated players are orchestrating structural workarounds, or are at least contemplating them.

CAPITAL ONE-DISCOVER

Capital One’s \$35.3-billion acquisition of Discover is the most consequential structural realignment in retail payments in two decades. It’s a direct response to the regulatory straightjacketing of the open debit

system and threats to the four-party credit system.

Because they don't "route" transactions between networks and issuers, three-party debit networks are exempt from interchange caps and the requirement to offer merchants a choice between two unaffiliated networks for every transaction.

Capital One earned roughly 49 basis points in capped interchange on its Mastercard/NYCE debit portfolio. Converting it to Discover generated higher market interchange revenue. In 2024, Discover's and Pulse's market debit interchange yields were 122 and 75 basis points, respectively. Over time, Capital One can raise Discover's debit interchange to at least Visa's and Mastercard's branded market rates.

But the right measure of Discover's value to Capital One is the interchange lift relative to where the cap is going to be, which is much lower. And Capital One now earns debit-network acquirer fees and avoids debit-network issuer fees. It will realize a similar network-fee benefit on credit cards converted from Mastercard and Visa to Discover.

Fueled by higher interchange fees, Capital One's Discover debit program pressures large debit issuers shackled by Durbin's price controls. And PayPal's and Block's debit cards, advantaged by market interchange, are taking share.

THE CORNER POST SHOCKWAVE

Merchants allege the Fed did not faithfully implement the Durbin Amendment. In the Linney Pizza case, Judge Gregory Tatenhove said it did. However, in a different circuit,

in the Corner Post case, Judge Daniel Traynor ruled that the Fed included recovery of issuer costs in its single debit interchange standard that the statute did not permit. He held that tailored caps for issuers with very different incremental processing costs were required.

BofA's, Chase's, and Wells Fargo's incremental debit-processing costs aren't more than a few basis points, if that. If Corner Post is upheld, large banks' debit economics will be destroyed. With the Supreme Court having ended the Chevron Deference Doctrine in 2024, Corner Post, anchored in the statute's text, is likely to prevail.

Banks' paramount rationale for owning their own debit networks is to free themselves from interchange price controls. America's three largest debit issuers have roughly \$1.5 trillion in annual debit purchase volume. If Corner Post prevails, their combined debit interchange revenue would nose-dive to under \$1 billion. While they'd do custom deals with merchant Goliaths, once their own networks were built out, market branded debit interchange could yield close to \$20 billion annually.

Debit issuing colossi would promote their own brands, not the neutered brand of an acquired Star, Accel, or NYCE.

While national debit networks through large merchants reach a majority of spend, they aren't accepted by millions of small and medium size merchants. Discover reached national acceptance parity with Mastercard and Visa by leveraging third-party acquirers.

Three-party BofA, Chase, and Wells Fargo debit networks would

push acceptance through their own and third-party acquirers. Nevertheless, achieving national-acceptance parity with Mastercard, Visa, and Discover would take investment and time.

During the buildouts, the Big Three could continue to issue Visa-branded debit cards with no or de minimis rewards and their own debit cards with rich rewards to incent use. Alternatively, they might seek to cobrand cards with a global network—probably Mastercard—for use where their own network wasn't accepted. For Mastercard, the upside would be incremental debit volume and possibly a commitment to greater credit share.

A three-party debit network could easily support 1% cash-back and deliver enticing merchant-funded promotions to spur consumer use and thereby merchant acceptance. In the initial build-out phase, a bank might subsidize rewards—say 2% cash back—to turbocharge use.

Targeted merchant-funded promotions over open systems à la Cardlytics have proved difficult to coordinate and scale. Over closed payment systems, however, they're highly effective at generating incremental sales for merchants and fees for issuers.

Retail-banking giants also need to be mindful of threats to their lucrative credit card franchises. Credit surcharging is surging. The preliminarily approved settlement of merchants' longstanding anti-trust suit against Mastercard and Visa over interchange fees and acceptance rules (MDL 1720) will loosen surcharging restrictions.

More surcharging will shift spend from credit to debit, making it imperative for large issuers to have economically viable debit products.

FINTECHS' CLOSED-LOOP THREAT

While banks look to bolster their debit economics, fintech platforms are mounting a parallel assault on open-payment networks from the consumer-facing wallet layer.

Rather than operating merely as pass-through software on top of Visa and Mastercard cards, PayPal and Block are creating bilateral closed-loop payments within their ecosystems of consumers and merchants.

When consumers pay merchants via PayPal or Venmo using their balances or linked bank accounts, PayPal is the consumer wallet and the acquirer. Instead of paying out interchange and network fees, PayPal collects the full merchant-

discount rate—while clearing transactions internally at near-zero incremental cost.

With Cash App Pay and its vast network of micro, small, and mid-size sellers, alongside a massive consumer base, Block, too, has a closed-loop payment network.

When a Cash App user scans a Cash App Pay QR code at a Square merchant, the transaction never touches Visa, Mastercard, or an acquirer. It's an "on-us" ledger transfer. Block can, therefore, offer merchants lower transaction-processing fees (or not) while simultaneously earning a higher net margin than it would by processing an open-network card transaction.

All in all, competition for the dominant payment systems from new vectors ultimately will benefit consumers and merchants. **DT**

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