

Voice of the Merchants

By Rene Pelegero



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Consumers, Issuers, Acquirers, and Merchants make up the four ‘corners’ of card schemes such as Visa and MasterCard. Why the lesson in card payment basics? Because one of the corners – the Merchants – is upset and feels taken for granted, and this is introducing a lot of friction. Their discontent stems from the fact that they actively participate in the schemes but have no voice in the development of card products or regulations.

Is this a ‘great conspiracy’ against Merchants? I don’t think so. Instead, I believe that the Financial Services Industry has fallen pray to the sin of developing products and services in a vacuum without consideration to ‘all’ participating parties. Having worked in and around the payments industry for over 20 years – I was just as guilty in my unintentional disregard of the Merchant community. They were just....there.

However, having moved over to the ‘other side’, seeing things from their perspective, I’ve begun to appreciate their frustration. For example, Merchants get upset when they are asked to sign card processing contracts stating that the Merchant ‘must abide by all the card associations’ regulations’. However, Merchants are not able to see what these regulations say because ‘they are not members’ of the schemes. Non-US Merchants are frustrated that they do not have interchange transparency as their US counterparts do. Aren’t the schemes global? Why the secrecy?

It is not all just about contracts and pricing, either. Many Merchants are also frustrated about rules or procedures. They think many things could be improved without compromising the system integrity while delivering a better consumer experience. However, no one asks their opinion in the drafting of rules or product creation. In brief, being considered ‘outsiders’ when they see themselves as a key ‘corner’ of the scheme is a particularly irritating state of affairs for Merchants.

However, not all is the fault of the Financial Services Industry. Merchants have demonstrated a large capacity for complaining but not taking positive, coordinated action to address these issues. The reasons for this lack of involvement are many: lack of knowledge, lack of interest, and resignation that the cost of payments is just the cost of doing business.

When they do get involved, they find that there are many things they do not understand and many things that are kept from them and, unfortunately - because they are not ‘members’ - they are unable to find the right answers. Most Merchant attempts to generate cooperative efforts have not got very far due to widely divergent sets of interests, as well as competitive concerns.

This state of affairs has led Merchants to search for other means to address perceived wrongs. Complaints from Merchants led to a number of government and legal actions in the last few months. The EU’s agreement with Visa last year to reduce Regional Interchange; the landmark decision by the Reserve Bank of Australia regarding interchange and surcharges; the recent ruling by the UK’s Office of Fair Trade on MasterCard’s Multilateral Interchange Fees; and the Wal-Mart lawsuit in the USA on global brand acceptance are all examples of how this frustration is being vented. These types of confrontations are not good for the payments industry because extreme measures could be imposed by external third parties that would be damaging to all corners of the payments’ square.

I believe there is an alternative, though. Give Merchants a voice. Not a token, symbolic gesture, but include them as active participants in the product design and rule-making process for the schemes. The large majority of Merchants are honestly trying to do the right thing for their customers and they feel they can make a positive contribution. Will pricing and interchange be an issue of dispute? You bet! However, it is better if all ‘corners’ begin dialogue rather than keep assailing each other through legal channels.

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