



Payments Industry 201

TSG EDUCATION SERIES

PREVIEW

TSG (The Strawhecker Group) is a globally recognized analytics and consulting firm that supports the entire payments ecosystem, serving over 1,000 clients from Fortune 500 leaders to dozens of the world's most valuable brands. Trusted by industry leaders, TSG's strategic services, market intelligence, and analytics merge to empower clients with actionable and accessible information.

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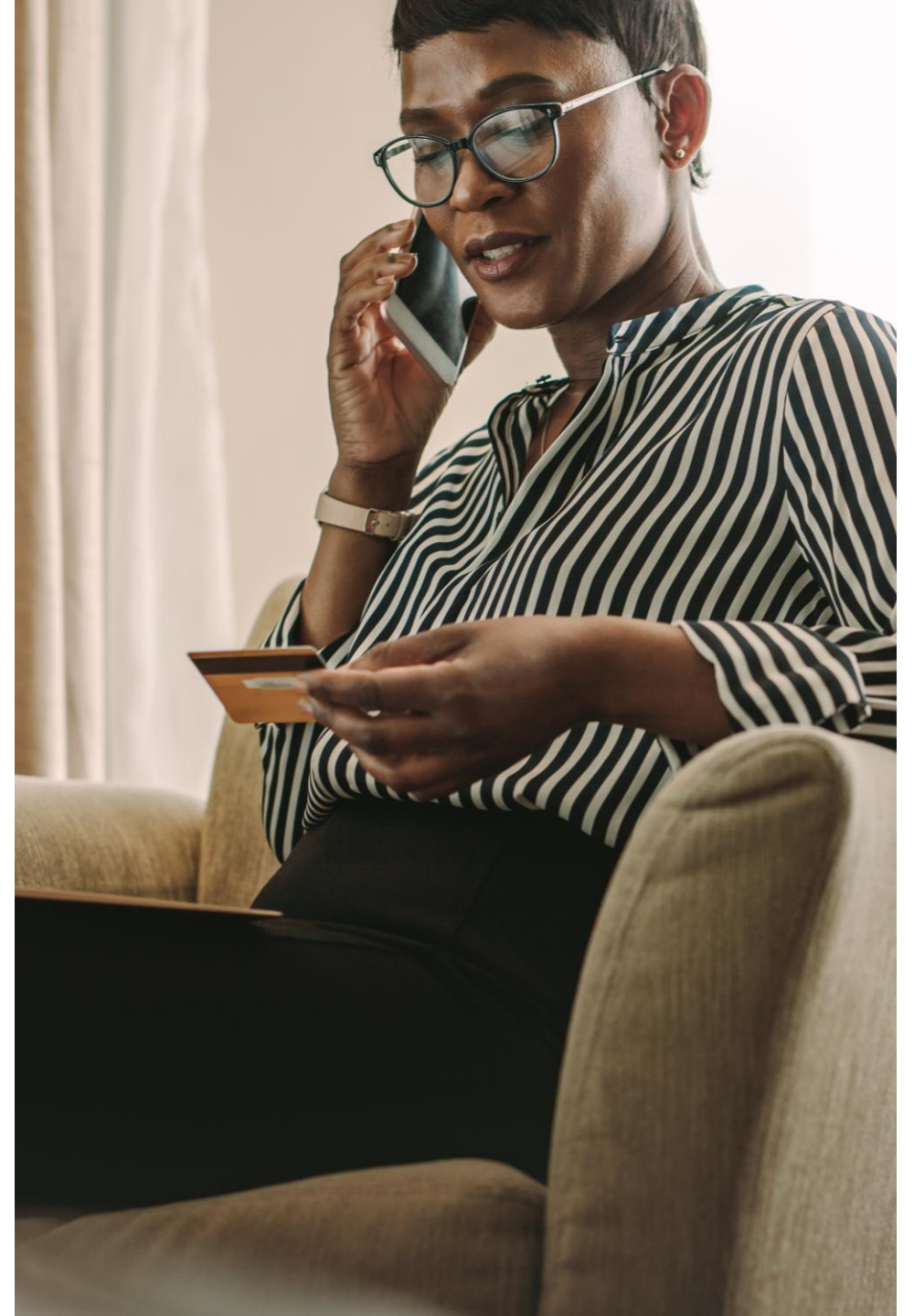
PREVIEW

TSG Payments Industry Education Series

TSG's Payments Industry Education Series offers an introductory overview of the core principles of the payments ecosystem, current trends, and future developments. Reports include Payments 101, 201, and 301.

Payments 201 expands on the foundational insights introduced in Payments 101, moving beyond definitions and transaction flows to examine how those roles and processes evolve in practice. This report explores the operational realities of modern payments, including alternative payment methods, risk management, and cost recovery strategies.

Designed for professionals who already understand the basics, Payments 201 connects foundational knowledge to real-world applications.



How to Read a Merchant Statement – PREVIEW

Recognizing the pricing model brings the rest of the statement into focus

IDENTIFYING PRICING MODELS

Merchant pricing models influence transparency, cost, and how fees appear on the statement. Identifying the pricing structure is critical for evaluating effective rates, spotting markups, and understanding which fees are pass-thru vs processor-defined.

Here's how to spot the three most common pricing models on a merchant statement:

PASS THRU (INTERCHANGE PLUS)

In an interchange plus model, the merchant pays the cost of interchange, assessments, and network fees as set by the card brands, plus a separate processor markup.

How to identify it:

- Interchange fees are broken out by category
- Assessments are clearly labeled by network
- Markups labeled Discount, Rate, Per Item, etc.

Number	Amount	Description	Total
3		AMEX ACQUIRER TRANSACTION FEE	0.06
1	15.00	VS US Corporate Card - Card Present	0.48
1	10.00	VS VIQ Small Ticket	0.22
4	96.00	VS Small Merchant VSP VIQ Product 2	2.20
1	10.00	VS Business Tr2 Prod 2	0.31
2	34.00	MC Commercial Rate 1 Large Market	1.12
1	21.00	MC World Elite Merit III	0.58
4	88.00	AM Service/Professional Service Tier 1	1.86
1	20.00	VS Small Merchant VT Product 2	0.36
1	16.00	VS Small Merchant VTR Product 2	0.33
1	24.00	VS Small Merchant VS VIN Product 2	0.44
21	514.00	VS US Regulated Debit	4.83
1	42.00	MC US Cons Regulated POS Debit w/Fraud Adj	0.24
1		MONTHLY SERVICE FEE	79.00
1		FIXED ACQUIRER NETWORK FEE (FANF)	2.00
35		TRANSACTION/NETWORK ACCESS FEE	1.75
4		TRANSACTION/NETWORK ACCESS FEE - AXP	0.20
4	88.00	AXP ASSESSMENTS	0.15
4	97.00	MC ASSESSMENTS	0.13
31	705.00	VISA ASSESSMENTS	0.94
		AXP SYSTEM PROCESSING FEE	0.35
17		BATCH CLOSE FEE	4.25
39	890.00	ASSOC KILOBYTE/BASE II FEES	0.47
4		MC NABU/LICENSE/DIGITAL ENABLEMENT FEE	0.18
31		VISA ASSOC APF FEE & CREDIT VOUCHER FEE	0.61

Base P/I	Base Rate	Discount Due
0.000	0.000	0.00
0.000	0.000	0.00
0.000	0.000	0.00
0.000	0.000	0.00
0.000	0.000	0.00
0.000	0.000	0.00
0.000	0.000	0.00

Important Note:

- Not all pass-thru pricing is truly transparent. Processors may add hidden markups to interchange categories, especially for non-qualified transactions. This moves the merchant into an "Interchange ++" pricing model.
 - Look for clues like a number in parentheses next to an interchange category (e.g., "MC Enhanced Standard (10)"), indicating a 10 basis point markup.
 - If interchange fees don't match the published brand rates, the processor could be adding an additional charge

Alternative Payment Methods – **PREVIEW**

There are several existing platforms in the U.S. that could be defined as “real-time”

EXISTING NETWORKS IN THE UNITED STATES

The Clearing House

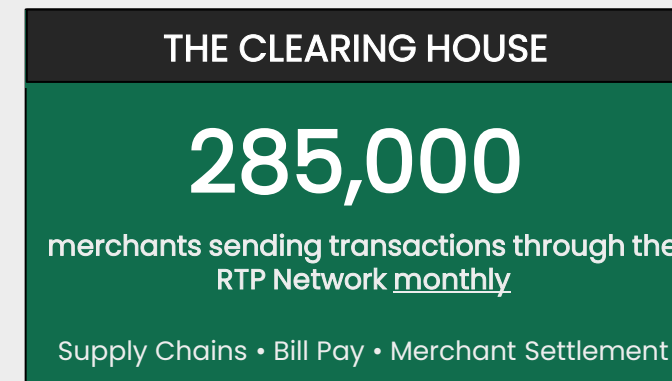
The Clearing House’s RTP network is the most widely used by volume and user count, with 71% of demand deposit accounts in the U.S. connected to RTP, an increase of 6% from 2024 to 2025. Although more geared toward enterprise merchants, large corporations and government agencies, The Clearing House’s RTP is also used by insurance companies, lending institutions, and gig workers who desire instant wage payments.

Zelle

Zelle, the peer-to-peer (P2P) network jointly owned by major U.S. banks, is an RTP network that allows users to send and receive money instantly using a registered bank account without needing to be on an approved list. Transactions between Zelle users or participating financial institutions can be cleared and settled through The Clearing House’s RTP network.

The Federal Reserve

The Federal Reserve launched FedNow in July 2023 as a public alternative to privately operated RTP networks. By mid-2025, FedNow has expanded its reach to over 1,300 financial institutions across all 50 states. While it has not yet matched the scale of The Clearing House’s RTP network, FedNow has rapidly grown its footprint, especially among small and mid-sized banks and credit unions, in just its first two years of operation.



\$163B
in Payment Value

Q1 2025

+285%
Growth

Year-over-year

100M
Transactions

Q1 2025

+32%
Growth

Year-over-year

This explosive growth signals mainstream adoption among businesses, expansion beyond P2P, competitive pressure on legacy payment systems, and infrastructure maturity.

Understanding Fraud & Risk – **PREVIEW**

Fraud prevention practices are needed at several points of the payments lifecycle

RISK & FRAUD IN THE PAYMENTS PROCESSING LIFECYCLE

There is significant risk for front-end fraud in transactions, such as stolen cards or account takeovers. To mitigate these risks, fraud prevention tools apply predefined rules and thresholds. When risk signals — such as mismatched billing and shipping addresses, unusual purchase amounts, or suspicious device fingerprints — are detected, alerts are triggered. These flags can prompt additional verification steps or stop the transaction entirely.

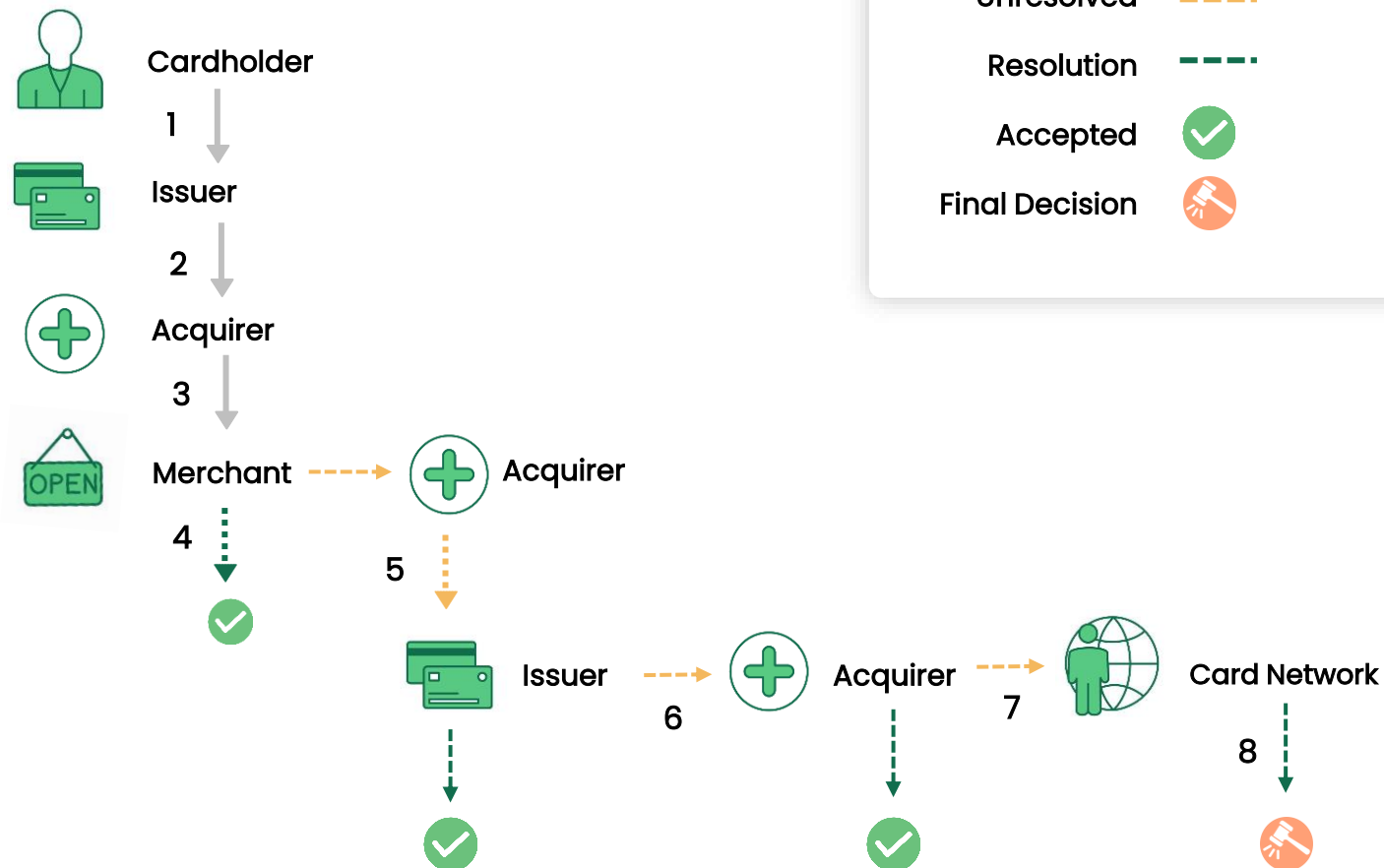


Understanding Fraud & Risk – **PREVIEW**

Behind the scenes of a chargeback

CHARGEBACK PROCESS

1. Cardholder initiates dispute with Issuing Bank
2. Issuer files chargeback with Card Network who communicates with Acquirer
3. Acquirer presents chargeback to merchant
4. Merchant accepts or disputes
5. If Merchant Disputes, Acquirer submits representment
6. Issuer accepts or rejects representment
7. If Issuer rejects representment, Acquirer can initiate pre-arbitration with Issuer
8. If a decision is not reached in pre-arbitration, the case is escalated to the Card Network for final decision



Surcharging & Related Practices – **PREVIEW**

Examples of what a surcharge and cash discounting transaction might look like to a customer

Surcharging vs Cash Discounting: From a Customer View

While surcharging and cash discounting programs offer advantages to merchants, the experience of a transaction varies for customers depending on which program is implemented.

TRADITIONAL TRANSACTION

Credit or Debit Card Used for Payment

Cost of Item¹: \$10.00

Processing Cost Paid by Consumer: -----

Total Cost of Item to Customer: \$10.00

¹Example cost does not include tax or other fees.

SURCHARGE

Credit Card Used for Payment

Cost of Item²: \$10.00

3% Surcharge Added: + \$0.30

Total Cost of Item to Customer: \$10.30

²Cash prices are posted on shelves. Example cost does not include tax or other fees.

CASH DISCOUNTING

Cash/Check Used for Payment

Cost of Item³: \$10.30

Cash Discount Applied: - \$0.30

Total Cost of Item to Customer: \$10.00

³Discount for cash posted on shelves. Example cost does not include tax or other fees.

In a traditional transaction, the merchant's cost of acceptance is paid by the merchant



TSG is a fast-growing analytics and consulting firm. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.



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20+

YEARS AVERAGE ASSOCIATE
EXPERIENCE IN THE PAYMENTS
INDUSTRY



1000+

CLIENTS ADVISED,
INCLUDING MANY IN
THE FORTUNE 500

~4M

CARD-ACCEPTING
MERCHANTS IN TSG'S
AIM ANALYTICS
PLATFORM, DRIVING
MILLIONS OF DOLLARS
IN ROI FOR ITS USERS



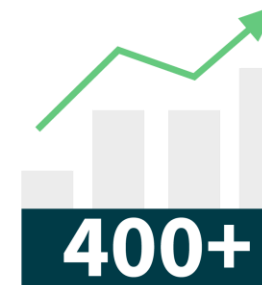
250+

COMPLETED PAYMENTS
COMPANY EVALUATIONS;
AS WELL AS ~30
BUY/SELL/INVESTMENT
ADVERTISEMENTS



40+

OF THE TOP 50
MERCHANT
ACQUIRERS
SERVED,
INCLUDING
9 OF THE TOP 10



400+

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THE GLOBAL PAYMENTS
LANDSCAPE, UNCOVERING
HUNDREDS OF THOUSANDS
OF DATA POINTS