

The Electronic Payments Data Dashboard provides quarterly updates on various data related to the credit and debit card system, including interchange and merchant discount rates, electronic payments, and consumer financial trends.

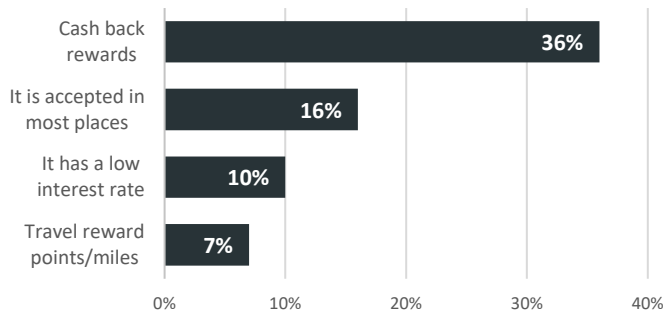
Electronic payments are becoming increasingly valuable to consumers, particularly with the rise of digital wallets and contactless cards. To keep up with demand, card issuers and networks are increasing investments in payment innovation. These innovations include new BNPL plans, tightened payment security, and further integration of digital wallets.

Newly released data show that as a share of purchase volume, credit interchange and merchant discount rates have remained stable for the past 7 years. In 2022, the weighted average merchant discount rate for credit cards was 2.19%.

The combination of inflation and rising interest rates are putting some strains on consumer finances, with a quarter of cardholders citing inflation as the cause of rising credit card debt. Still, as a share of disposable income, credit card debt remains below pre-pandemic levels.

### Cash-Back Rewards Rated Cards' Best Feature

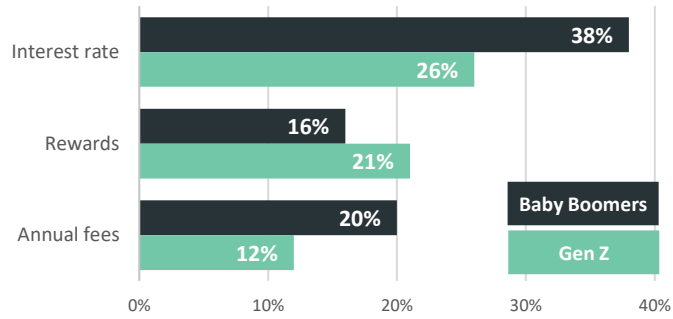
According to credit cardholders, cash-back rewards are by far the best credit card feature. Consumers also value the ability to use their cards in most places.



Source: [Bankrate](#) (2023)

### Cardholder Priorities Shift Across Generations

The most important aspects of cards differ by age. Baby boomers tend to prioritize costs, such as interest rates and fees, while more Gen Z cardholders emphasize rewards.



Source: [Motley Fool](#) (2023)

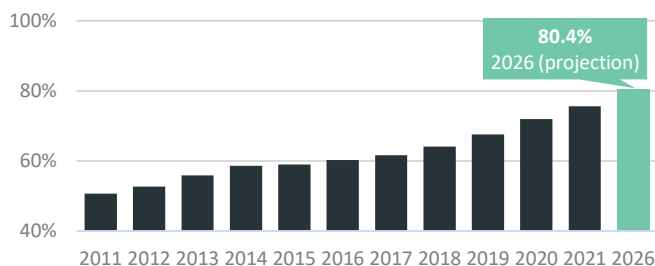
As consumers grow more reliant on payment cards, financial institutions are investing more in technological innovation. In 2023, payment innovation is likely to focus on strengthening existing BNPL programs, cybersecurity, and digital wallet systems.<sup>1</sup> **Point-to-point encryption, tokenization, and biometrics** are among technologies being deployed by networks and issuers to protect consumers against electronic payment fraud. A substantial share of point-of-sale devices are now adding facial biometrics.<sup>2</sup>

While credit and debit cards remain consumers' preferred methods of payment, online digital wallet use has surged, and this trend is expected to continue in 2023. Younger consumers are most likely to view digital wallets as a potential full replacement for physical wallets. Over **70%** of consumers have used at least one feature of mobile wallets, primarily for paying bills.<sup>3</sup>

<sup>1</sup>[Payments Dive](#), <sup>2</sup>[Nilson Report](#) (2023), <sup>3</sup>[PYMNTS](#)

### Cards Make Up Greater Share of Transactions

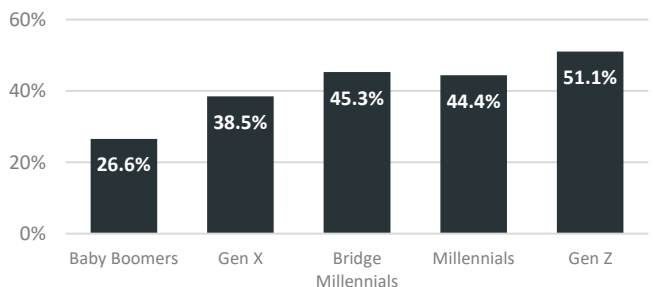
Credit and debit cards continue to win market share from other payment methods. Card-based spending made up 75.6% of consumer payment transactions in 2021. This number is expected to grow to 80.4% in the next five years.



Source: [Nilson Report](#) (2023).

### High Perceptions of Mobile Wallet Utility

A PYMNTS survey recently found about half of Gen Z thinks mobile wallets could fully replace physical wallets. Older consumers tended to believe that mobile wallets could replace only some of the features of physical wallets..



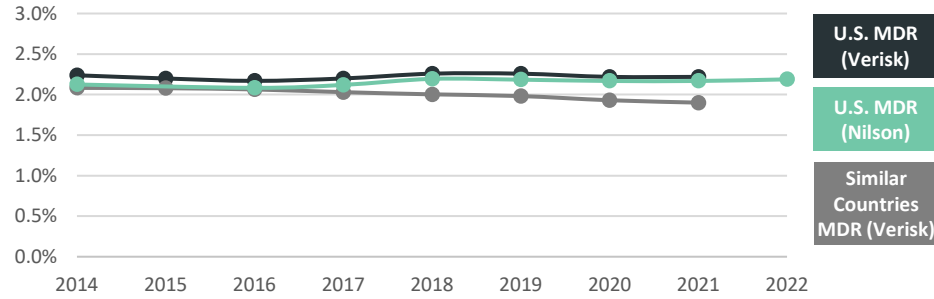
Source: [PYMNTS](#) (2023)

# Interchange and Merchant Discount Rates

Merchants keep a vast majority of revenue from credit card sales. They pay a small fee, called the merchant discount fee or the merchant discount rate (MDR), to accept card payments. **The average MDR (of which interchange is the largest component) is around 2% of total sales revenue.**

## Credit Merchant Discount Rate (MDR)

Verisk Financial Research and the Nilson Report publish frequently cited estimates of the MDR. In 2022 in the United States, Nilson estimated that the weighted average MDR was 2.24% for Visa and Mastercard, 2.29% for American Express, and 2.16% for Discover. Verisk found that the weighted average merchant discount fee across all credit cards was 2.22% in 2021, unchanged since 2020.



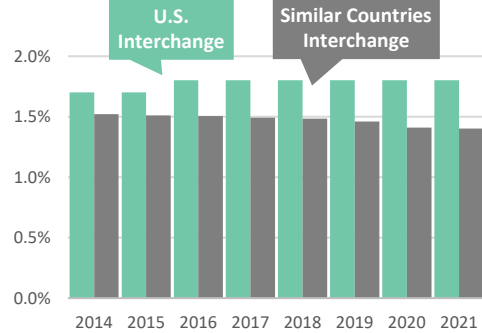
Year	Nilson MDR	Verisk MDR	
	U.S.	U.S.	Similar Countries*
2014	2.13%	2.24%	2.08%
2015	-	2.20%	2.08%
2016	2.09%	2.17%	2.06%
2017	2.12%	2.20%	2.03%
2018	2.20%	2.26%	2.00%
2019	2.19%	2.26%	1.98%
2020	2.17%	2.22%	1.93%
2021	2.17%	2.22%	1.90%
2022	2.19%	-	-

Source: Nilson Report; Verisk. Nilson data for 2015 is unavailable.  
 \*Average MDR for similar countries consists of a simple average of data for countries other than the U.S. that do not cap credit interchange or MDR. Countries with caps are excluded.

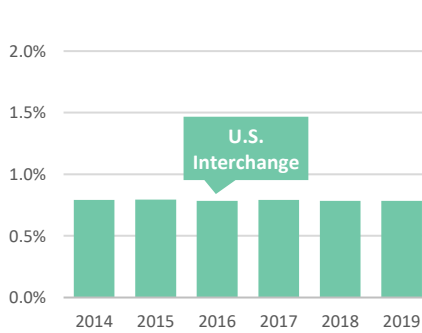
## Interchange Rate (Largest Component of MDR)

The average credit interchange rate in the U.S. held steady at 1.70% from 2012–2015 before rising to 1.80% in 2016. The debit interchange rate, kept artificially low due to the Durbin amendment, fell 1bp to 0.78% from 2012–2019.

### Credit



### Debit

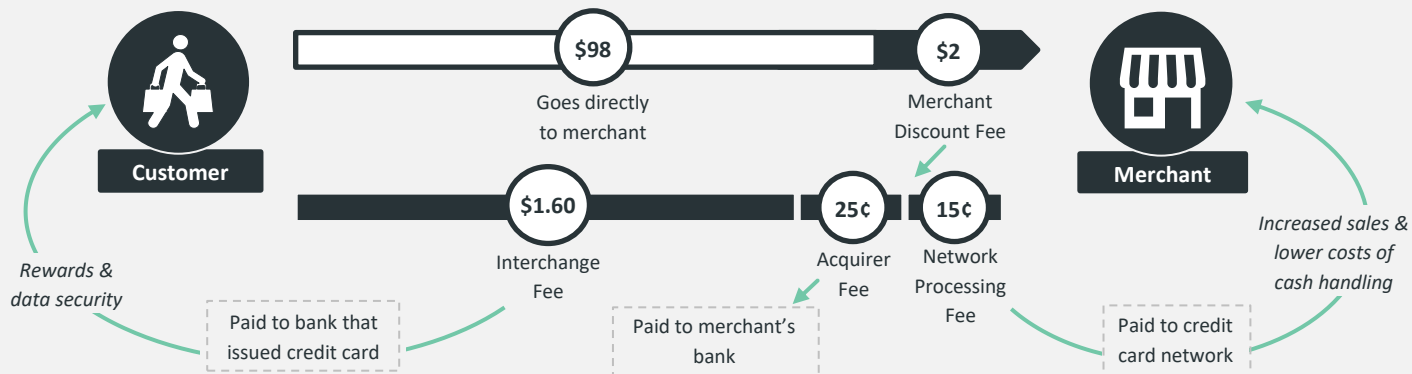


Year	Debit Int.	Credit Int.	
	U.S.	U.S.	Similar Countries*
2014	0.79%	1.70%	1.52%
2015	0.80%	1.70%	1.51%
2016	0.78%	1.80%	1.50%
2017	0.79%	1.80%	1.49%
2018	0.78%	1.80%	1.48%
2019	0.78%	1.80%	1.46%
2020	-	1.80%	1.41%
2021	-	1.80%	1.40%

Source: Verisk (Credit) and Federal Reserve (Debit). Note: debit interchange estimates are weighted averages that account for exempt and covered transactions for signature and PIN networks.  
 \*Average interchange for similar countries consists of a simple average of data for countries other than the U.S. that do not cap credit interchange or MDR. Countries with caps are excluded.

## Payment Process

The MDR consists of an interchange fee, a network fee, and an acquirer fee. Each fee is set by, and paid to, a different entity. Merchants pay in order to receive the benefits of electronic payments, including increased sales, guaranteed payments, access to online channels, and lower costs of cash handling. Customers also benefit through ease of payment, rewards, and data security. The graphic below represents a rough estimation of these fees.



# Inflation and Consumer Payment Choice

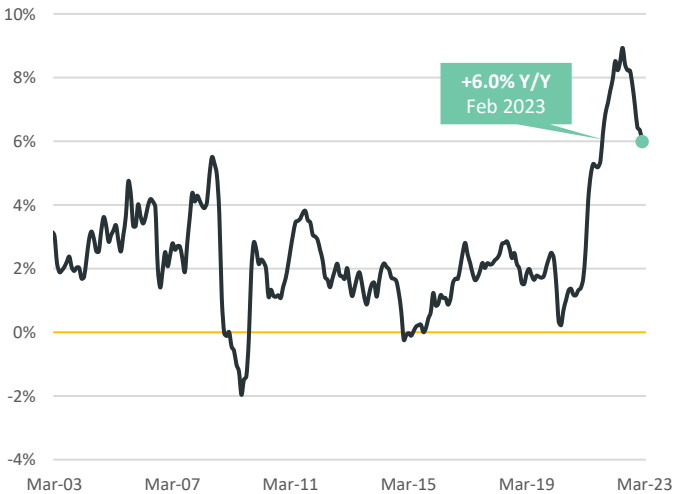
Inflation slowed toward the end of 2022 and during the first two months of 2023. Even so, year-over-year inflation remains at its highest level since 1990. The dramatic price increases of the past two years have affected consumer finances in several ways.

In an effort to combat inflation, the Fed has raised rates rapidly: the effective Fed Funds rate has climbed nearly 460 bps over the past year. These rate increases affect all interest rates paid by consumers, including those on mortgage, auto, and credit card loans. As a result, credit card interest rates have risen steadily over the past twelve months.

As a share of disposable income, aggregate credit card debt has continued to rise, influenced by higher prices as well as higher rates. Notably, this measure is still well below pre-pandemic levels, as consumers built up savings over the pandemic. Incomes also rose over the past several years, outpacing inflation.

## Inflation Moderates but Remains High

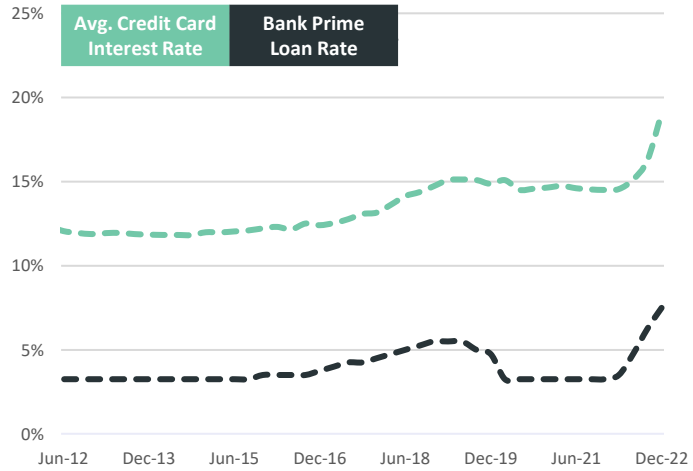
Prices were up 6% in February compared to the same time last year, as inflation showed signs of moderation. Consumers are still feeling the effects of heightened prices.



Source: Consumer Price Index, Bureau of Labor Statistics (2023)

## As Fed Raises Rates, Credit Card APRs Increase

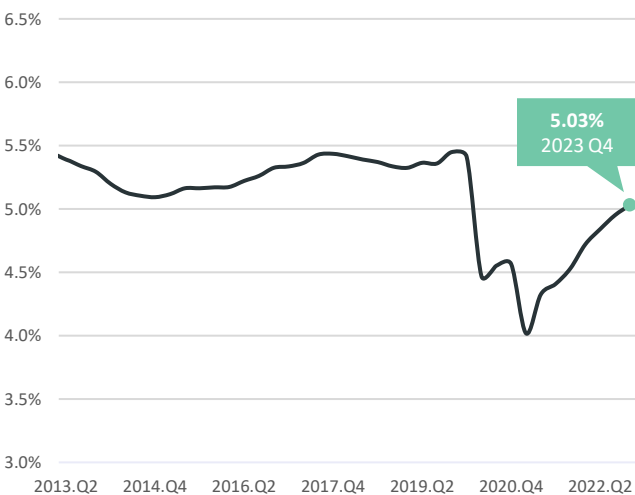
Credit card interest rates rise in step with the bank prime loan rate, which is influenced by the Fed's interest rate increases. As the Fed continues to fight inflation through rate hikes, APRs on all loans will likely continue to rise.



Source: Federal Reserve Board (2023)

## Credit Card Debt as Share of Income Rises

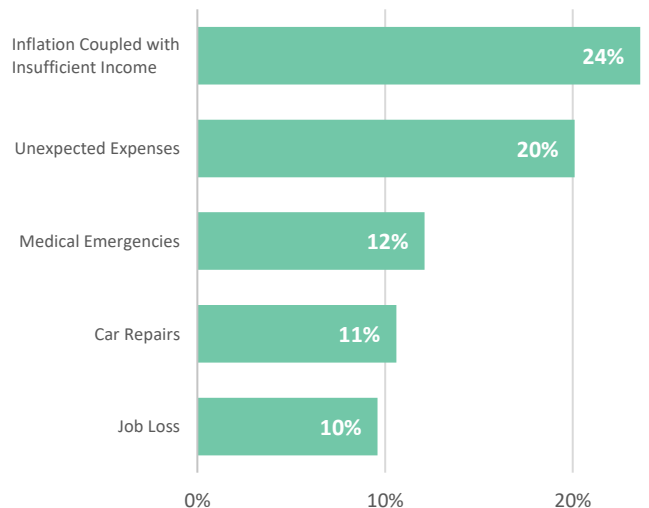
As a share of disposable income, credit card debt rose again, indicating increased consumer reliance on credit cards. However, the measure is still well below pre-pandemic levels.



Source: Federal Reserve Bank of New York, Bureau of Economic Analysis, Seasonally Adjusted (2023)

## Inflation is a Driver of Credit Card Debt

Nearly a quarter of respondents listed the combination of increased cost of living and insufficient income as the primary reason for accrued credit card debt.



Source: U.S. News (2022)