CREDIT CARD CORPORATE PROFITEERING FINDINGS

the GROUNDWORK COLLABORATIVE

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DISCOVER FINANCIAL SERVICES

Discover boasted that 2022 was one of their best years ever, with billions shoveled back to their investors

Discover's CEO boasted that 2022 was the "second strongest year for earnings in our company's history." "Roger Hochschild, CEO: I'm very pleased to say that 2022 was the second strongest year for earnings in our company's history. We reported [a] net income of $1 billion or $3.77 per share for the fourth quarter and $4.4 billion or $15.50 per share for the full year. This was accomplished against a fluid and unusual macroeconomic and monetary policy backdrop, and I want to thank the entire Discover team for their solid execution. This performance gives us significant momentum going into 2023 and beyond." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover crowed about the "highly capital generative nature of our business model," noting they repurchased $2.4 billion in stock in 2022 and increased their dividend by over 20%. "Roger Hochschild, CEO: We're also prudently investing for growth, including an acquisition and brand marketing, the continuing build-out of our data and analytic capabilities, and increasing field personnel for both servicing and collections, all while achieving a 39% efficiency ratio. The combination of revenue expansion and disciplined cost management contributed to our 31% return on equity this past year and underscores the highly capital-generative nature of our business model. Over the course of 2022, we repurchased $2.4 billion in common stock and increased our dividend by over 20%, and we expect to sustain attractive levels of capital return to our shareholders into the future." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover spent over $600 million on stock buybacks in the 4th quarter alone. "John Greene, CFO: Looking at Slide 10. Our common equity Tier 1 for the period was 13.3%. Our longer-term target remains at 10.5%. We expect to make progress against this target over the next four to six quarters. Yesterday, we announced a quarterly common dividend of $0.60 per share. And in the fourth quarter of 2022, we repurchased $602 million of common stock." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover told analysts it expected to spend $2.2 billion on stock buybacks in just the first half of 2023. "John Greene, CFO: Lastly, we have $2.8 billion of remaining capacity under the $4.2 billion share repurchase program that expires in June of this year. We expect to repurchase around $2.2 billion of shares in the first half of 2023. We'll provide an update on future share repurchase authorizations after we complete our stress testing process and review recommendations with our Board." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover appeared to repeatedly credit the Fed's actions for growth in their net interest margin and income

Discovers CFO credited "the higher prime rate" for their increased net interest margin. "John Greene, CFO: Let's review the details starting on Slide 5. Net interest income was up $584 million year-over-year or 24%. Our net interest margin expanded, benefiting from the higher prime rate partially offset by higher funding costs and increased promotional balances. NIM ended the quarter at 11.27%, up 46 basis points from the prior year and 22 basis points sequentially." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover's CFO repeated that their net interest margin "continues to benefit from prime rate increases." "John Greene, CFO: In summary, receivable growth continued to benefit from new account acquisition, payment rate moderation, and positive sales. NIM continues to benefit from prime rate increases with funding costs consistent with expectations, and credit is performing in line with our approach through-the-cycle underwriting process and conservative credit management. Our perspective for 2023 reflect[s] our focus on advancing our strategic priorities generating high returns and capital while remaining disciplined in our credit and expense management." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover's CFO specifically called out the Fed rate hikes as a driver for growth in Net Interest Margin, along with a higher yield in loans thanks to the "increase in rate environment." "John Greene, CFO: Yes. Yes. So I'm going to run through the primary drivers. So first would be the Fed rate changes in the second half of '22 as well as what we've anticipated, either two or three increases in 2023. The second impact is the yield on our investments, which is improving with the increase in the rate environment. And then, the third piece has been some pricing actions we took in the consumer banking products. So, think about the non-card products. So offsetting that would be kind of the cost of funding. So DTC and external funding costs have increased. And then we're also anticipating an impact from [the] credit, all of which the net of those gives us a high level of confidence that certainly, we're going to see peak NIM in the first quarter and then stepping down from there through 2023." (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover's earnings presentation noted total loan yield increased "primarily due to higher prime rate." Total loan yield was up 86bps QOQ primarily due to higher prime rate" (Discover Financial Services 2022 & Q4 2022 Financial Results Presentation, 1/18/2023)

Discover's earnings presentation noted net interest margin increased "primarily due to higher market rates." "Net interest margin was 11.27%, up 46 bps primarily driven by higher market rates, partially offset by higher funding costs" (Discover Financial Services 2022 & Q4 2022 Financial Results Presentation, 1/18/2023)

Discover's earning presentation credited higher late fees for increased loan fee income. "Loan fee income increased primarily reflecting higher late fees" (Discover Financial Services 2022 & Q4 2022 Financial Results Presentation, 1/18/2023)

Discover also appeared to benefit from increased interchange fees

Discover told analysts their non-interest income increased 47% thanks in part to higher interchange revenue. "John Greene, CFO: Looking at other revenue on Slide 6. Non-interest income increased $212 million or 47%. This was partially due to a $138 million loss on our equity investments in the prior year quarter, compared to a $6 million loss this quarter. Adjusting for these, our non-interest income was up 14%. This increase was primarily driven by two items. First, loan fee income was up $51 million or 39%, driven by volume. And second, we had higher net discount and interchange revenue, which was up $23 million or 7%, reflecting strong sales and a favorable sales mix, partially offset by higher rewards costs.” (Discover Financial Services Q4 2022 Earnings Call, 1/19/2023)

Discover’s earning presentation said higher sales volume had increased interchange revenue. “Net discount and interchange revenue was driven by higher sales volume partially offset by increased rewards costs” (Discover Financial Services 2022 & Q4 2022 Financial Results Presentation, 1/18/2023)

MASTERCARD

Mastercard’s revenue increased by 23%, thanks to increased processing fees

Mastercard’s CEO reported their quarterly revenue had increased 23%. “Michael Miebach — Chief Executive Officer: Thank you, Warren. Good morning, everyone. Let’s get right into it. So the headline is that consumer spending remained resilient, and cross-border travel continues to recover. With this backdrop, we delivered strong revenue and earnings growth through the focused execution of our strategy. Third quarter net revenues were up 23% and adjusted operating income up 27%, both versus a year ago on a non-GAAP currency-neutral basis, excluding special items. Now the macroeconomic and geopolitical environment remains uncertain. Inflationary pressures have remained elevated and central banks are continuing to take aggressive steps to bring inflation in line.” (Mastercard Q3 Earnings Call, 10/27/2022)

Mastercard told analysts transaction processing fees were up 22% while transactions only grew 9%, and attributed the difference in part to “pricing.” “Sachin Mehra — Chief Financial Officer: Transaction processing fees were up 22%, while switched transactions grew 9%. The 13-ppt difference is primarily due to favorable mix, FX-related revenues, and pricing. Other revenues were up 22%, including a 2-ppt contribution from acquisitions. The remaining growth was driven primarily by our cyber and intelligence and data and services solutions.” (Mastercard Q3 Earnings Call, 10/27/2022)

Mastercard’s CFO admitted, “our transaction processing fees are growing faster than the underlying driver, one of which is the mix change.” “Jamie Friedman — Susquehanna International Group — Analyst: Hi. Sachin, transaction processing fees increased by 15%, but switched transactions increased 9%. I know you called out in your prepared remarks mix changes. I was just wondering if you could elaborate on that. Sachin Mehra — Chief Financial Officer: Sure. So there are a few things going on right there where our transaction processing fees are growing faster than the underlying driver, one of which is the mix change. And really, remember, when we make cross-border revenues, we make cross-border revenues on a basis-point basis, as well as on a sales per transaction. And the component, which is on basis points since and cross-border volume fees and there’s some component of cross-border related sales per transaction that sits in terms of the number of transactions which we process with the same transaction processing fees, which is where the mix effect comes through.” (Mastercard Q3 Earnings Call, 10/27/2022)

Mastercard used its profit to spend over $2 billion on stock buybacks in the third quarter

Mastercard spent over $2 billion on stock buybacks in the past quarter. “Sachin Mehra — Chief Financial Officer: Operating expenses increased 17%, including a 3-ppt increase from acquisitions. Operating income was up 27%, which includes 1-ppt decrease related to acquisitions. EPS was up 22% year over year to $2.68, which includes a $0.06 contribution from share repurchases. During the quarter, we repurchased $1.6 billion worth of stock and an additional $505 million through October 24, 2022.” (Mastercard Q3 Earnings Call, 10/27/2022)

Mastercard’s CFO admitted the company benefited from inflation-increasing prices

Mastercard’s CFO admitted that the company benefits from inflation: “the reality is you’re very correct about the fact that we charge our basis points in cents per transaction. Our basis points are of nominal value of spend and that reflects the impact of inflation in there.” “Sachin Mehra — Chief Financial Officer: Yeah, Darrin, I’ll take that question. I guess to your point around inflation. Look, I mean, persistent in place for long periods of time, which causes for a shift in share of wallet away from carded categories into non-product categories would be the one area I would actually flag as a potential headwind as it relates to our business model. But putting that issue aside, the reality is you’re very correct about the fact that we charge our basis points in cents per transaction. Our basis points are of nominal value of spend and that reflects the impact of inflation in there. So the reality is, as we’ve said in the past, modest inflation and inflation in carded categories, we’re generally — we kind of — our business model accounts for that because depending on if it’s carded, it doesn’t matter, like Michael said, whether it’s happening in travel or it’s happening in food and building, those are carded categories, and you kind of get the benefit of that come through. Look, I mean, as it relates to your question on expenses, we’ve always remained disciplined on expenses. The thing which we always keep in mind is a few things.” (Mastercard Q3 Earnings Call, 10/27/2022)

A study found that Visa and Mastercard had raised fees by over $1 billion since 2021. “The changes coming in April 2022 are quite complicated, but only affect consumer credit card transactions within the programs outlined below. While these are the largest changes coming, it is not an exhaustive list, and there are other smaller changes coming as well. CMSPI estimates that the total impact of these changes are $475 million in annual increases. Bringing the whole picture together, $475 million from Visa and Mastercard is added to the changes that went into effect last year from Visa, which CMSPI estimated to be worth $698 million dollars, and a grand total of $1.17 billion in increased fees for merchants annually.” (CSMPI, 2/23/2022)

Mastercard announced it was doubling its “Digital Enablement Fee” and adding a minimum charge, increasing costs for every online transaction. “Along with the interchange changes, Mastercard has also announced its intention to increase the Digital Enablement fee, which applies to all online spend through the network. Currently charged at 0.01% on all sale transactions, Mastercard is firstly changing the fee to occur on all authorizations instead, meaning this fee will occasionally be charged on a transaction where no final sale is made. For example, this fee will still apply even if a transaction is declined, or if a consumer cancels a purchase before the good is shipped. They are also doubling the fee from 0.01% to 0.02% and implementing a minimum charge of $0.02 per transaction. While the fee doubling is already a substantial change, the minimum charge will apply for all transactions under $100 made online, meaning that the smaller the transaction, the larger the charge. For example, a $20 t-shirt ordered online will see a 10x increase in this fee, and a $5 hamburger ordered through an app will see a 40x increase, making smaller ticket merchants extremely vulnerable to the change." (CSMPI, 2/23/2022)

Mastercard told analysts that it was seeing higher ticket prices and no spending slowdown

Mastercard's CEO said the company had not seen any changing consumer behavior due to inflation, but "there has been a 1% increase in our switched volume that's related to gas price increases." "Michael Miebach — Chief Executive Officer: Sanjay, thanks for your question. So on the inflation side, as Sachin mentioned earlier, we have not seen anything yet in terms of changing consumer spending behaviors. But what we are seeing is, in terms of the impact on the vertical mix, and so forth, there has been a 1% increase in our switched volume that's related to gas price increases. We're seeing some shifts in the airline. That is again under inflationary pressure from a ticket prices perspective. So we have to see where it goes going forward. I mean, fundamentally, where I stand on this is the push by consumers into the digital space. They learn these habits; they're online. All that will continue. And we'll see where the underlying prices go. (Mastercard Q1 2022 Earnings Call, 4/28/2022)

Mastercard's CEO stressed the company had not seen reduced spending from inflation: "Could there be a crowding-out effect of rents or gas prices… that's not something we can tell yet." "Michael Miebach — Chief Executive Officer: All that will continue. And we'll see where the underlying prices go. In the end, it comes back to what we've been saying all along. There are macro considerations in each country. That has to be considered here. One's monetary, fiscal policy, and then there are the micro aspects of the different verticals, which ones of those are carded, which ones we would see, which ones we wouldn't see. Could there be a crowding-out effect on rents or gas prices, particularly in Europe? Yes, there might be, but that's not something we can tell yet." (Mastercard Q1 2022 Earnings Call, 4/28/2022)

Mastercard's CFO: "At this stage, we have not seen any significant impact of these in consumer spending." "Sachin Mehra — Chief Financial Officer: As Michael mentioned, consumer spending remains robust, particularly as economies open further and pandemic-related restrictions are lifted. Having said this, we are monitoring a number of factors, including inflationary pressures, supply chain constraints, geopolitical uncertainties, and COVID infection rates. At this stage, we have not seen any significant impact of these on consumer spending. Cross-border travel is recovering rapidly as border restrictions ease. (Mastercard Q1 2022 Earnings Call, 4/28/2022)

Mastercard's CFO told analysts the company saw increased ticket sizes, with volumes and transactions well over 2019. "Sachin Mehra — Chief Financial Officer: Yes, Dave, again, I want to make sure I got the question, but what we've observed — if you look at our trends for how switched volume and switched transactions are trending, you'll see effectively that the improvement quarter over quarter in switched volumes from 131% of 2019 to 136% of 2019 is a 5-point improvement, compared to switched transactions, which have improved from 131 to 132. That should signal to you that there is a higher ticket size, which is happening, which you would expect because as people get out and travel more, they do so, that's higher ticket in general.

They do it on credit products, which are higher ticket size. As also there is — as e-commerce happens, that happens to be higher. So you've seen that come through in the Delta on a sequential basis." (Mastercard Q4 2021 Earnings Call, 2/7/2022)

Mastercard also reported higher revenue as inflationary trends increased transaction size and volume

Mastercard reported that its revenue had increased nearly 30% in Q1 2022, thanks to "stronger than expected…domestic volumes." "Net revenue was up 27%, reflecting the continued execution of our strategy and the ongoing recovery in spending. Acquisitions contributed 2 ppt to this group. These revenues were above expectation, primarily due to stronger-than-expected cross-border and domestic volumes, favorable cross-border mix, and FX-related revenues. Operating expenses increased 13%, including a 6 ppt increase from acquisitions. Operating income was up 40%, which includes a 1 ppt decrease related to acquisitions. Net income was up 61%, which includes a 20 ppt benefit due to the recognition of a one-time discrete tax benefit related to a U.S." (Mastercard Q1 2022 Earnings Call, 4/28/2022)

Visa and Mastercard used their market control to increase fees on merchants who pass them on to consumers

Visa and Mastercard planned to increase previously delayed fees on merchants that accept credit cards. "Visa Inc. and Mastercard Inc. are preparing to increase the fees that many large merchants pay when they accept consumers' credit cards. The fee increases—delayed during the past two years because of the pandemic—are scheduled to kick in next month, according to people familiar with the matter and a document viewed by The Wall Street Journal." (Wall Street Journal, 3/8/2022)

The Visa and Mastercard fee increases targeted online purchases, in-store retail, and supermarkets. "The Visa and Mastercard fee increases will apply to many online consumer credit-card purchases, according to the document and people familiar with the matter. A Visa spokesman said merchants can avoid the higher fees if they provide certain transaction data and use its token service that masks card numbers. Mastercard will also increase fees on more than a dozen in-store purchase categories, according to the document and people familiar with the matter. Small and midsize supermarkets will pay higher interchange fees on most rewards cards. In-store general retail fees will also rise." (Wall Street Journal, 3/8/2022)

The bulk of retailers will see increased costs from the fee increases. "Only an extremely narrow segment of merchants with a small overall transaction volume might benefit from the new fee structure, critics say. The bulk of retailers will see increased costs, which will trickle down to consumers already struggling to make ends meet amid the highest inflation in 40 years." (USA Today, 4/25/2022)

Visa and Mastercard control more than 70% of the credit card payment market, collecting a percentage of the total spent in transactions. "Processing fees, or 'swipe' fees, on credit cards are likely rising for millions of businesses, but whether this is a classic case of corporate greed at the expense of consumers depends on who you ask. Visa and Mastercard, the top two payment networks in the U.S. with more than 70% of the market, recently changed their fee structures for merchants who accept their credit cards for payments. The fees, charged every time a customer swipes a credit card, are typically a percentage of the total spent in the transaction." (USA Today, 4/25/2022)

In 2021, Visa and Mastercard collected $55.4 billion in merchant fees, over double the number from 2012. "U.S. merchants paid card issuers an estimated $55.4 billion in Visa and Mastercard credit-card interchange fees in 2021, more than double the amount in 2012, according to the Nilson Report. They pass along at least some of these costs to the consumer in the form of higher prices. More merchants have started charging consumers extra when they pay with credit cards." (Wall Street Journal, 3/8/2022)

Total processing fees collected by Visa and Mastercard rose from $27.7 billion in 2011 to $77.48 billion in 2021. "As more commerce moved online during the pandemic, so did fraud," it said. To see how much is at stake, total processing fees for all types and brands of cards were $137.8 billion in 2021, according to the Nilson Report, which provides news and analysis of the global card and mobile payment industry. That compares with $110.3 billion in 2020 and $65.1 billion in 2011. For Visa and Mastercard credit cards alone, 2021 was $77.48 billion, 2020 was $61.63 billion and 2011 was $27.7 billion." (USA Today, 4/25/2022)

Democrats in Congress, led by Senator Durbin, have attacked Visa and Mastercard for fee hikes

Senator Richard Durbin accused Visa and Mastercard of profiting off inflation and held a hearing critical of interchange fee hikes. "In response to soaring inflation, Democrats have accused companies of raising prices disproportionately to increase profits amid demand and supply-chain bottlenecks. Visa Inc. and Mastercard Inc. came under fire at a Senate Judiciary Committee hearing for raising the transaction fees charged to merchants accepting their credit cards. Senate Judiciary Chairman and Majority Whip Richard J. Durbin, D-Ill., said the 'interchange fees' face too little competitive pressure and that increases are hitting consumers and businesses when they can least afford it. 'We're facing inflation. And the last thing the American people need is a higher swipe fee. I wish both companies had resisted the urge to make some money when they can,' he told representatives from Visa and Mastercard." (Roll Call, 5/4/2022)

Senator Durbin cited comments by Visa's CFO that inflation was a net positive for the company. "Interchange fees are typically a percentage of the transaction cost, usually 1 to 3 percent. As prices go up with inflation, swipe fees do too, Durbin said, pointing to reports that Visa Chief Financial Officer Vasant Prabhu said on an earnings call that inflation had been a net positive for the company. 'So let's put to rest the theory that this has nothing to do with inflation,' Durbin said." (Roll Call, 5/4/2022)

Credit card interest rates are reaching record highs at the same time that credit balances are surging

Credit card balances rose by $52 billion in the fourth quarter of 2021, the largest quarterly increase in 22 years of recorded data. "Overall, credit card balances rose by $52 billion in the fourth quarter of 2021, notching the largest quarterly increase in the 22-year history of the data, according to the most recent report from the Federal Reserve Bank of New York. Now, total card debt is on track to surpass pre-pandemic levels and hit an all-time record as soon as this summer, according to Ted Rossman, a senior industry analyst at CreditCards.com. " (CNBC, 4/27/2022)

Most credit cards have variable rates directly connected to the Fed's benchmark, so APRs will rise as the Fed raises interest rates. "At the same time, the Federal Reserve has committed to raising interest rates to tame inflation, which is now running at its fastest pace in more than 40 years. Since most credit cards have a variable rate, there's a direct connection to the Fed's benchmark. As the federal funds rate rises, the prime rate does, as well, and credit card rates follow suit. Cardholders see the impact within a billing cycle or two." (CNBC, 4/27/2022)

A 50-point hike by the Fed will cost consumers an additional $3.3 billion on interest alone. "If the Fed announces a 50 basis point hike in May, as expected, consumers with credit card debt will spend an additional $3.3 billion on interest this year alone, according to a new analysis by WalletHub. The average consumer has a credit card balance of $5,525, according to Experian, and pays an annual percentage rate of roughly 16.38%, which is cheap by historic standards but significantly higher than nearly every other consumer loan. (CNBC, 4/27/2022)

Analysts predicted APRs as high as 18.5% by the end of 2022. "With several rate hikes on the horizon, credit card rates could be as high as 18.5% by the end of the year, another all-time record, Rossman said. If the APR on your credit card rises to 18.5% from 16.38% in 2022, it will cost you another $885 in interest charges over the lifetime of the loan, assuming you made minimum payments on a $5,525 balance, he calculated." (CNBC, 4/27/2022)

Most credit cards have fixed rates until the 1980s

Until the mid-1980s, most credit cards had fixed rates that were "immune" to prime lending rates controlled by the Federal Reserve. "Debt outstanding from all cards was $82 billion in 1980, compared to $287 billion last year. The variable-rate card eclipsed the fixed-rate card. 'The vast majority of credit cards through the mid-1980s were fixed rates, which were immune to fluctuations in the prime lending rates or cost of funds,' explained Robert McKinley, president of RAM Research in Frederick, which tracks the credit card industry. 'We didn't see variable rates until the mid-1980s, but today about two-thirds of cards are variable." (Baltimore Sun, 9/2/1994)

The average credit card rate was 17.3% in 1980. "Credit cards have always held the highest loan rates, but they are particularly high right now when compared with other rates. In 1980, the average credit card rate was 17.3 percent, the discount rate charged on loans by the Federal Reserve was 11.5 percent and the prime lending rate was 15 percent. This year, with card rates averaging 17.34 percent, the discount rate is 3.50 percent and the prime rate is 7.75 percent." (Baltimore Sun, 9/2/1994)

VISA

Visa reported massive increases in processed transactions, on which they recently raised fees

Visa's CEO told analysts their quarterly revenue had increased 19%. "Al Kelly -- Chairman and Chief Executive Officer: All of this helped to drive fiscal full-year net revenues up 22% year over year and non-GAAP EPS of $7.50, up 27%. Now, let me transition to our fourth quarter performance and key highlights and then make a few comments about 2023. Fourth quarter net revenues grew 19% year over year, and non-GAAP EPS was $1.93, up 19%. Total Q4 payments volume was up 10% year over year, or 135%, versus three years ago, down 1 point from Q3." (Visa Q4 2022 Earnings Call Transcript, 10/25/2022)

Visa reported that their processed transactions had increased 12% year over year, and 140% from 2019. "Al Kelly -- Chairman and Chief Executive Officer: Processed transactions were up 12% year over year or 140% versus 2019, and we processed 553 million transactions a day during the quarter. Now, I'll provide an update on the drivers that propel this growth in consumer payments, new flows, and value-added services. Our consumer payment strategy has three components to it: growing credentials, increasing acceptance, and deepening engagement. Total consumer payments revenue for the fourth quarter and the year were both up more than 20% in constant dollars." (Visa Q4 2022 Earnings Call Transcript, 10/25/2022)

Visa spent nearly $15 billion on buybacks and dividends

Visa spent nearly $15 billion on stock buybacks and dividends over the past fiscal year. "Vasant Prabhu -- Vice Chairman and Chief Financial Officer: Our three growth engines, consumer payments, new flows, and value-added services, all grew revenues in excess of 20% in constant dollars. In fiscal year '22, we bought back $11.6 billion of stock at an average price of $205.97. Contributions to the litigation escrow account, which have the same effect as a stock buyback, added another $850 million. We also paid out $3.2 billion in dividends. At the end of September, we had $5.1 billion remaining in our buyback authorization. In October, our board authorized a new $12 billion stock buyback program and increased our dividend by 20%. Now on to the details. In the U.S., credit grew 17% year over year to 36% over 2019, helped by travel and entertainment spending." (Visa Q4 2022 Earnings Call Transcript, 10/25/2022)

A study found that Visa and Mastercard had raised fees by over $1 billion since 2021. "The changes coming in April 2022 are quite complicated, but only affect consumer credit card transactions within the programs outlined below. While these are the largest changes coming, it is not an exhaustive list, and there are other smaller changes coming as well. CMSPI estimates that the total impact of these changes are $475 million in annual increases. Bringing the whole picture together, $475 million from Visa and Mastercard is added to the changes that went into effect last year from Visa, which CMSPI estimated to be worth $698 million dollars, and a grand total of $1.17 billion in increased fees for merchants annually." (CSMPI, 2/23/2022)

Visa executives have repeatedly said the company benefits from inflation pushing up ticket and transaction sizes

Visa's CEO said that because "inflation typically lifts transaction size...historically, inflation has been positive for us." "Al Kelly — Chairman and Chief Executive Officer: So there are — the inflation has some puts and takes on our business. Service fees and international fees are basis points on volume. So inflation typically lifts transaction size. But offsetting that, incentives are also tied to volume, so there's some offset to that lift. Fuel prices go up. But then on the other hand, sometimes consumers tend to moderate their buying in times of large increases in gas to the degree that, over time, if it was to happen, the dollar was to weaken, that increases inbound cross-border flows and the US inbound corridor is one of our largest and higher-yielding corridors. Expenses for personnel and marketing, professional fees could go up. But I'd say two things and then ask Vasant to add anything he wants. So far, we're not — as I said and I think Vasant said in his remarks, we're really not seeing much impact that's causing us any concern in our numbers. And then, the last thing I'd say, net-net, historically, inflation has been positive for us." (Visa Q2 2022 Earnings Call, 4/27/2022)

Visa's CFO: "there's multiple impacts from inflation. Net-net, it's a positive for us. We have not seen any impact on discretionary spending that we can discern." "Vasant Prabhu — Chairman and Chief Financial Officer: Yeah. Just to add to what Al said, I mean we clearly have seen — we've seen ticket sizes go up in the US, in particular, in Europe, but it's not all inflation. Some of it is mix. It's mix driven by the fact that the card-present transactions, which often tend to be smaller transactions, have not yet fully come back. It's mix also because e-commerce transactions, even when you do everyday purchases, can be larger ticket sizes. We could even see ticket sizes go down in inflationary times as card-present comes back. So as Al said, there's multiple impacts from inflation. Net-net, it's a positive for us. We have not seen any impact on discretionary spending that we can discern. If anything, discretionary spending, especially from affluent consumers and credit cardholders has been going up quite healthily. So in general, there isn't any evidence impact — evident impact on inflation, but obviously, we'll keep looking for it." (Visa Q2 2022 Earnings Call, 4/27/2022)

Visa's CFO: "So, to the extent that there's inflation driving up ticket size, clearly, it's beneficial to us." "Vasant Prabhu — Vice Chair and Chief Financial Officer: Sure. In terms of inflation as it relates to our revenues, as you know, our service fees, cross-border, etc., are denominated primarily in basis points on ticket size. So, to the extent that there's inflation driving up ticket size, clearly, it's beneficial to us. When it comes to transactions processing, our fees are generally tied to number of transactions. Right now, of course, the size of the basket has gone up. Some of it is because of inflation. Some of it is because it's just gone up through the pandemic. Some of it has to do with the fact that some of the smaller transactions you've got in a normal world like people going and buying themselves lunch at work or a cup of coffee, we're losing some of those transit." (Visa Q1 Earnings Call 2022, 1/28/2022)

Visa's CFO: "So, net-net, I mean, we are a beneficiary of inflation." "Vasant Prabhu — Vice Chair and Chief Financial Officer: And so, that causes ticket size on a mix basis to go up, which will recover, and that will be good for our transactions business. And in general, when people are ordering in through e-commerce, basket sizes have tended to go up. So, the basket size increase we see now is partially inflation. Partially, it's some elements like the ones I just went through. So, net-net, I mean, we are a beneficiary of inflation. And in terms of wage inflation, generally speaking, I mean, we expect some. Everybody is seeing it. But overall, I mean, it's reasonable at this point, and we'll update you, you know, as time goes by if it's more than we expected." (Visa Q1 Earnings Call 2022, 1/28/2022)

Visa's CEO emphasized the ticket sizes also benefited from the rebound of the "affluent segment" who "tend to have higher ticket sizes." "Al Kelly — Chairman and Chief Executive Officer: No, I think it was a very complete answer, Vasant. The only other factor that you didn't mention relative to ticket sizes is something I said in answering, I think, Darrin's question that as the affluent segment, which is the segment that — whose spending went down the most during the pandemic, comes back in, obviously, they tend to have higher ticket sizes as well. So, there's a number of factors that drive ticket sizes. Actually, getting to precision on causality and what the different weighting of those different factors are is virtually impossible." (Visa Q1 Earnings Call 2022, 1/28/2022)

Visa's profits have surged alongside inflation

Visa reported that its profits rose 21% alone in Q1 2022. "Payment processing giant Visa's profits rose 21% in the first three months of the year, fueled by a large jump in spending on the company's namesake credit and debit card network. The San Francisco-based company reported Tuesday that it earned $3.65 billion, or $1.70 a share, in its fiscal second quarter that ended March 31. That was up from $3.03 billion, or $1.38 a share, in the same period a year earlier." (Associated Press, 4/26/2022)

Visa's profits were driven by increases in both the number and size of transactions on its network. "Visa's results were driven largely by a significant jump in the amount of money and the number of transactions that went through its payment network. The company processed $3.384 trillion in payments on its network last quarter, up 17% from a year earlier. Visa earns a fee from every transaction that uses its network."(Associated Press, 4/26/2022)