

# FTC reportedly expands debit card routing probe to consider Mastercard and Visa tokenization

Article

**The news:** The **Federal Trade Commission (FTC)** is reportedly investigating whether **Visa** and **Mastercard** use tokenization to flout debit card routing rules, people familiar with the matter

told the Wall Street Journal.

**Key context:** Tokenization protects user information like card numbers by replacing it with algorithmically generated numbers, or tokens. These tokens are usually provided by the card network. Visa and Mastercard create tokens when users add their cards to mobile wallets or store payment information on websites and apps.

**Breaking down the probe:** Federal regulation requires that issuers let merchants choose from at least two unaffiliated debit card networks to route transactions. The rule was designed to create card network competition: Visa and Mastercard accounted for more than half (63%) of global card network volume last year, per the Nilson Report.

The FTC has been investigating whether Mastercard and Visa block merchants from routing payments over other debit card networks. Now, it wants to know whether merchants can still route payments via alternative networks when Mastercard or Visa use tokenized payments.

- When networks tokenize payment information, only they have the algorithm to decrypt the token. That encourages routing transactions through their own networks.
- Otherwise, Mastercard and Visa would have to decode the tokens so alternative networks can handle the transactions.

**Why it's worth watching:** Policymakers are pushing back against Visa and Mastercard's card dominance over the last year to create more market competition.

- The **Federal Reserve Board of Governors**, for example, recently finalized a rule that requires issuers to offer merchants at least two unaffiliated payment networks for card-not-present transactions.
- These types of rules encourage competition against Visa and Mastercard and could hurt their volume and revenues.
- And with total payment card transaction volume in the US expected to increase 5.9% year over year (YoY) in 2022 and hit \$6.551 trillion, per Insider Intelligence forecasts, losing even a small share of the market could mean missing out on significant volume.

**The big takeaway:** While the FTC's reported tokenization probe could spell bad news for Visa and Mastercard, it may lead to welcome change for merchants that make it easier for them to use less expensive card networks.

## Which Payment Methods Have US Digital Buyers Used to Make Digital Purchases?

% of respondents, by demographic, Aug 2022

	Female	Male	18-34	35-54	55-65	Total
Credit card	62%	53%	42%	63%	68%	58%
Debit card	57%	47%	63%	54%	38%	52%
PayPal	42%	45%	43%	48%	40%	44%
Gift certificate	21%	13%	13%	15%	24%	17%
Cash	15%	15%	24%	12%	9%	15%
Apple Pay	11%	11%	20%	9%	4%	11%
Buy now, pay later/installment plan services (e.g. Afterpay, Affirm, Klarna)	13%	7%	13%	12%	5%	10%
Venmo	11%	8%	15%	10%	4%	9%
Google Pay	8%	10%	9%	12%	6%	9%
App provided by retailer (e.g., Starbucks)	7%	4%	7%	7%	3%	6%
Walmart Pay	5%	5%	8%	5%	2%	5%
Samsung Pay	2%	4%	4%	4%	1%	3%
Other electronic wallets	3%	2%	3%	3%	2%	3%
Other	2%	1%	0%	3%	1%	1%
Don't know	0%	0%	0%	0%	0%	0%
None	0%	1%	1%	1%	0%	1%

Note: in the past month/30 days

Source: "The Insider Intelligence Ecommerce Survey" conducted in Aug 2022 by Bizrate Insights, Aug 24, 2022

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