



# The ultimate guide to the payments industry

You'll learn:

- The size of the payments industry
- The history and future of card payments
- How popular digital payments are
- Key players facilitating digital transactions
- How card transactions work
- How digital payments can help your business





## How big is the payments industry?

The payments industry in North America is one of the largest and most dynamic in the world. The U.S. represents the largest payments market in North America, accounting for more than 90% of the total market size. Canada makes up the second largest payments market in North America, accounting for approximately 10% of the total market.<sup>2</sup>

In 2022, credit and debit card spending in North America climbed above \$11.5 trillion, with \$10.9 trillion in dollar volume from the U.S. and approximately \$600 billion in dollar volume from Canada.<sup>3</sup>

The ACH Network can be used to understand the size and scale of the digital payments industry. The ACH Network is one of the largest payment rails in the world and is utilized by payment methods like eChecks. ACH processes transactions by moving funds between bank accounts, with more than 30 billion electronic payments made in 2022.<sup>4</sup> The National Automated Clearing House Association (NACHA) provides oversight of the ACH network by setting and enforcing the rules of the network, but the network itself is operated by the Federal Reserve and the Clearing House. The ACH Network operates both in the U.S. and Canada.<sup>5</sup>

The top 3 preferred payment methods in the **U.S.** are:

- 1 Credit cards
- 2 Debit cards
- 3 Cash

The top 3 preferred payment methods in **Canada** are:

- 1 Credit cards
- 2 Debit cards
- 3 Mobile wallets

<sup>2</sup> The Canadian Payments Market Snapshot, TSG (The Strawhecker Group), 2023

<sup>3</sup> TSG Education Series - The Payments Industry 101, TSG (The Strawhecker Group), 2023

<sup>4</sup> ACH Network and Volume Growth, NACHA (National Automated Clearing House Association), 2024

<sup>5</sup> Canadian Payment Methods and Trends Report, Payments Canada, 2023

<sup>6</sup> Diary of Consumer Payment Choice, The Federal Reserve, 2023

# The history and future of card payments

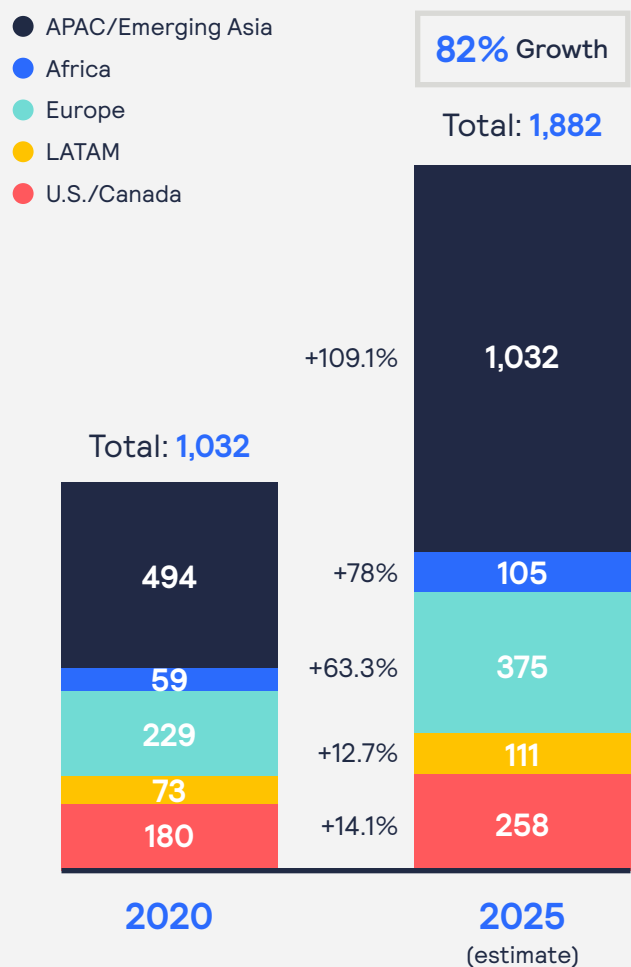
**A brief history.** While letters and lines (and clay tablets!) of credit date back to the Mesopotamian era, modern-day credit cards were first issued in 1914 by Western Union.<sup>6</sup> The company introduced a product called Metal Money, one of the first credit cards for consumers. Less than a decade later, companies like Texaco began issuing paper credit cards to its preferred customers. The rest is history.

Consumers' experiences with eCommerce companies have raised their expectations when it comes to digital interactions and transactions. To build better experiences for consumers, every company must expand their understanding of customer behavior and technological innovations.

## Major industry milestones

- 1914** - Western Union introduces Metal Money, one of the first types of credit cards
- 1958** - Bank of America launches BankAmericard
- 1976** - Visa (formerly BankAmericard) is established
- 1979** - Visa introduces the first POS terminal
- 1983** - The internet is officially born
- 1994** - The first legitimate eCommerce transaction is completed
- 1994** - Authorize.net is founded
- 1997** - The first SMS mobile payments are made at Coca-Cola vending machines
- 2008** - Visa goes public
- 2010** - Visa acquires Cybersource, inclusive of Authorize.net
- 2020** - Authorize.net wins the TSG Payment Gateway Awards' Highest Authorization Rate Award

## Approximate payments transactions (Billions)<sup>7</sup>



<sup>6</sup> Six Fascinating Things About Western Union's History, Western Union, 2019

<sup>7</sup> TSG Education Series - The Payments Industry 101, TSG (The Strawhecker Group), 2023

# How popular are digital payments?

After the COVID-19 pandemic, more consumers began using new financial tools such as online payments, virtual POS, mobile payments, and eChecks, to name a few.

Research firm TSG's most recent consumer survey found the following payment trends playing out this year:

- 79% of consumers in the U.S. have tried a digital wallet at least once, and 30% use them frequently.
- Usage of QR codes for payments increased substantially from 2022 to 2023, with 78% of consumers indicating they made at least one payment through a QR code in 2023.
- Saved account payment methods are increasing in popularity: 51% of consumers regularly used one-click payment options to speed up their checkout experiences on websites in 2023. Gen Z and millennial consumers are especially fond of accelerated checkout options.

Note: This study was conducted in October of 2023, and included data from 1,005 U.S. consumers located in all four major geographical regions (West = 17%, Midwest = 21%, Northeast = 20%, South = 42%). Respondents were evenly split between men and women and well represented across race and income.



## Consumers' use of digital payment options is driven by comparative convenience, security, and speed.

- ✓ **Convenience.** With more than 97% of Americans and more than 84% of Canadians owning a cell phone of some kind, digital wallet use continues to become more popular.<sup>8</sup>
- 🛡️ **Security.** Protecting consumers' card details (tokenization) has become a common security feature that makes it more difficult for fraudsters to steal sensitive payment information.
- ⚡ **Speed.** Digital payments, including card payments, eCheck, and services like PayPal, are quick and seamless. With an internet connection and a smart device, consumers can make payments quickly with little or no data entry.

<sup>8</sup> Mobile Fact Sheet, Pew Research Center, 2024

<sup>8</sup> Smartphone Use and Smartphone Habits by Gender and Age Group, Statistics Canada, 2022



# Who's who in the payments industry?

There are two sides to every transaction: acquiring and issuing. Acquiring focuses on the merchant side and issuing on the cardholder side. There are also interconnected participants who facilitate the interaction between the acquiring and issuing sides.

## What is a merchant acquirer?

A merchant acquirer is a financial institution that 'acquires' card payments from card issuing banks on behalf of a business. This is the financial institution at which you have your merchant account.

**There are a variety of acquiring-related models in North America, including:**

**Independent sales organizations** focus on sales and customer service for businesses and partner with a merchant acquirer to process payments.

**Payment facilitators** can support smaller businesses with fast onboarding because they act as the merchant of record for their merchant acquirer. The businesses they serve act as sub-merchants.

**Software companies**, sometimes called Software-as-a-Service (SaaS) companies or Independent Software Vendors, partner with acquirers to provide payment to businesses more readily. Increasingly, software companies that help businesses with things like inventory management, marketing, and accounting are becoming Payment Facilitators, Independent Sales Organizations, or partnering with acquirers in some other fashion.

## What is a payment gateway?

A payment gateway is a key part of the payment ecosystem. It's an intelligent, internet-based application that routes payment transaction data when your customers make purchases. A payment gateway lets your business accept payments on a website, mobile app, in a store, or on a mobile device.

## What is an issuer?

An issuer is the financial institution that issues credit or debit cards to consumers. The cardholders themselves are another crucial participant in the payments ecosystem. In the U.S. market, there are approximately 9,500 card-issuing banks and credit unions.<sup>10</sup>

## Visa, a key driver of the ecosystem

In addition to issuers and acquirers, there are also other key players in the payment ecosystem, like Visa. Payment networks like Visa facilitate digital payments between acquirers, issuers, businesses like yours, and cardholders.

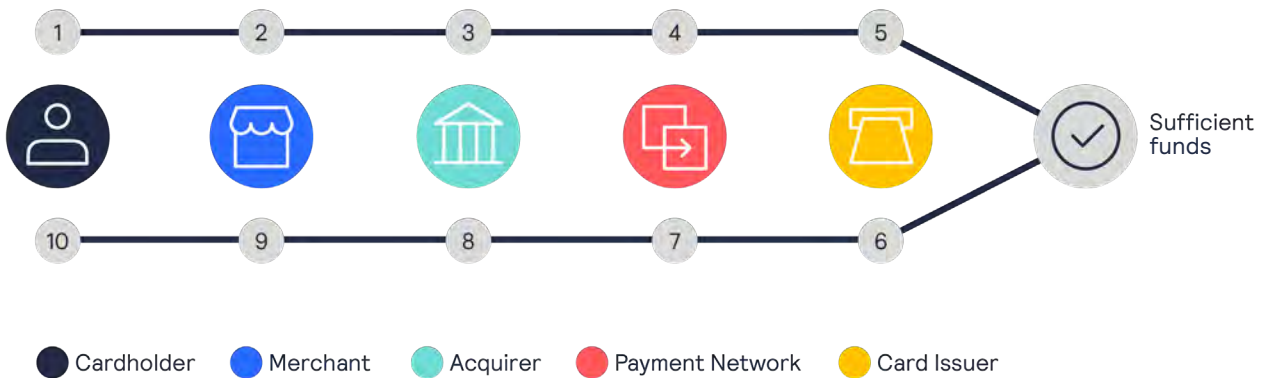
<sup>10</sup> TSG Education Series - The Payments Industry 101, TSG (The Strawhecker Group), 2023

# How do card transactions work?

There are two types of card transactions: card-present and card-not-present.

**Card present:** Card-present transactions involve a cardholder physically presenting a card to complete a transaction. These transactions typically take place at a physical location. There are other transactions, like using a mobile wallet, which are like card-present transactions; however, rather than swiping or inserting a card, the card is digitally stored in a mobile wallet and used to 'tap and pay'.

**Card not present:** Card-not-present transactions do not involve a physical card reader. Card details such as the number and expiration date may be keyed in, for example. These transactions typically take place online, in a mobile app, or through voice commerce, such as with a smart speaker. There are also instances when a card number may be manually keyed in at a physical store.



Regardless of whether they take place in-store or online, card transactions involve two key processes facilitated by gateways like Authorize.net: authorization, and settlement and clearing.

## Authorization

Every time a customer makes an electronic card purchase, either online or in-store, payment gateways like Authorize.net help you get paid by capturing the relevant transaction details and payment information from each customer. The gateway also verifies customers have enough money in their account for purchase during authorization.

## Settlement and clearing

For card transactions, settlement occurs at the end of a transaction between a customer and your business. At this stage, your payment gateway will confirm funds have been successfully deposited into your bank account by transferring money from your customers to your bank. This typically happens once a day.

# What is an eCheck?

eCheck is a payment method that moves funds from a buyer's checking to a business's account. This method replaces a paper check with an electronic payment routed through ACH. With more than \$76 trillion in payments processed via ACH in 2022,<sup>11</sup> eCheck is a useful option for bill payments, mail orders, telephone orders, website orders, and recurring subscriptions.

## How do eChecks work?

When a customer is ready to make a purchase, they select eCheck as a payment option. The consumer enters their account information, including account holder name, authorized dollar amount, bank routing number (i.e., bank identifier where the funds are held), and the depository account number. The routing number is then verified to ensure all of the customer's bank account and identification information is valid.

The payment is processed when the merchant's system sends a file of eCheck transactions to the eCheck processor (e.g., Authorize.net) or the originating depository financial institution (ODFI). The file is then sent to the ACH network, which routes the transactions to the appropriate financial institution for payment. The customer's financial institution receives the request for payment and deducts the funds from the designated account. The payment is then sent back through the ACH network and deposited into the merchant's account. It can take between 7 and 10 days to confirm the account information is valid and that there are sufficient funds in the account.

## [Knowledge Article Detail Page - Anet | Authorize.net Support Center](#)

*Here's how this process works:*

- 1 Joe is online looking at shirts for a wedding he has coming up. He finds the perfect one for \$50.00 on Dina's Clothing Company website. During the checkout process, he has the option to pay by card or eCheck.
- 2 Joe selects the eCheck option and enters his name, bank routing number, and account number on the checkout screen.
- 3 He authorizes Dina's Clothing Company to pull the \$50.00 from his checking account.
- 4 Once the transaction is complete, Joe receives confirmation of his purchase.
- 5 Dina's payment system (Authorize.net) submits the \$50.00 for processing.
- 6 Authorize.net submits the \$50.00 to Joe's bank via the ACH network.
- 7 Joe's bank pulls \$50.00 from his account and sends it through the ACH network to Authorize.net.
- 8 Authorize.net deposits the \$50.00 into Dina's account.

<sup>11</sup> ACH Network and Volume Growth, NACHA (National Automated Clearing House Association), 2024

## What are the benefits of eChecks?

eChecks offer benefits for both businesses and consumers, including cost-effectiveness, security, speed, and the ability to set up recurring payments. Businesses that choose to utilize eChecks must be NACHA compliant; NACHA sets the rules for ACH transactions, including eChecks. These rules cover aspects such as transaction security, data protection, and proper handling of ACH and eCheck payments. Let's look at the benefits in more detail:

### *Business benefits*

- **Save time.** Because eChecks are processed electronically, you don't have to wait for a paper check to arrive in the mail before receiving notice of a customer's payment.
- **Reduce errors.** The process of receiving and depositing a paper check has multiple opportunities for human error. There are also costs associated with check acceptance, including employee expenses and bank fees.
- **Less effort.** With a one-time approval to withdraw funds from a customer's account, businesses can automate recurring payments, eliminating the need to manually collect payments.
- **Low costs.** eCheck transactions are typically inexpensive for businesses, with average costs between 26 and 50 cents (for comparison, paper check costs are typically between \$1.01 and \$2).<sup>12</sup>
- **Small dispute window.** The period for a customer to issue a chargeback period for an eCheck is 60 days from the purchase date.

### *Consumer benefits*

#### **No paper.**

eChecks eliminate the time, costs, hassle, and efforts associated with using paper checks.

#### **Easy payments.**

Customers can "set it and forget it" by arranging a recurring payment to withdraw automatically.

#### **Inclusivity.**

Customers without access to credit can still pay with an eCheck.



<sup>12</sup> ACH Costs are a Fraction of Check Costs for Businesses, AFP Survey Shows, NACHA (National Automated Clearing House Association), 2022





## Unlock the power of digital payments for your business

By understanding the payments industry and choosing the best solution for your business, you'll be able to accept payments and watch your business grow. Consider the following factors when choosing a payment solution:

- The types of payments you want to accept (e.g., credit cards, debit cards, mobile wallets, etc.)
- The fees associated with different payment solutions
- The security features of different payment solutions
- The ease of use of different payment solutions

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