



Payments Industry 101

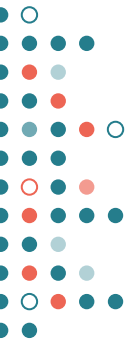
TSG EDUCATION SERIES

PREVIEW

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PREVIEW

TSG Payments Industry Education Series

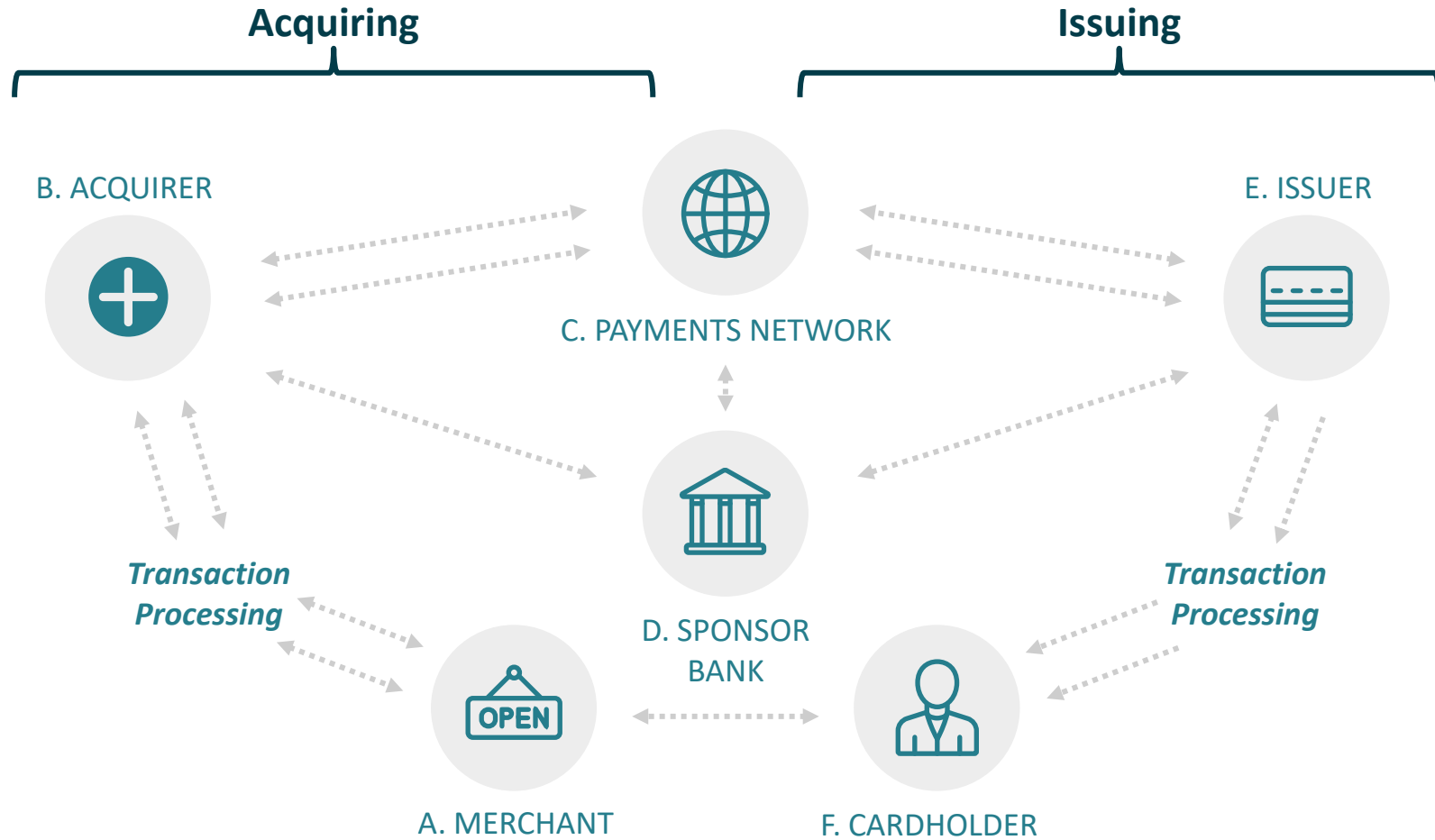
TSG's Payments Industry Education Series encompassing '101', '201', and '301', provides a foundational look into the fundamentals of the payments ecosystem (101), trends that are occurring within the ecosystem today (201), and what the future of payments may look like (301).

The ways in which entities exchange payment for goods and services continues to develop, and when it comes to electronic payments, there has been substantial recent evolution.

This first report – Payments Industry 101 – serves as an introductory guide to the payments industry. It provides a high-level overview of the inner workings of the space along with a conceptual basis to help you establish a foundation of knowledge.



Core Participants - **PREVIEW**



The Transaction Flow - **PREVIEW**

There are two general types of transactions – **card present** and **card not present**



Card Present Transactions

Card present transactions involve a cardholder physically presenting a card to complete a transaction. These transactions typically take place at a physical location between a merchant and cardholder. There are other transactions, like using a mobile wallet, which are similar card present transactions; however, rather than swiping or inserting a card, the card is digitally stored within a mobile wallet and used via Near Field Communication (NFC).



Card Not Present Transactions

Card not present transactions do not involve using a physical card with a physical card reading device. Card details (e.g. card number, expiration date) may be keyed in, for example. These transactions typically take place via eCommerce, mobile commerce (mCommerce) or voice commerce. There are also instances when a card number may be manually keyed in at a physical store.

There are many similarities between card present and card not present transactions like the participants involved – acquirer, processor, payment network, issuer, for example. However, there are also key differentiators between the two, as the transaction’s needs and risk of fraud differ. The following pages illustrate a card present and a card not present transaction.

Credit Card Numbers Defined **PREVIEW**

1. Credit Card Number

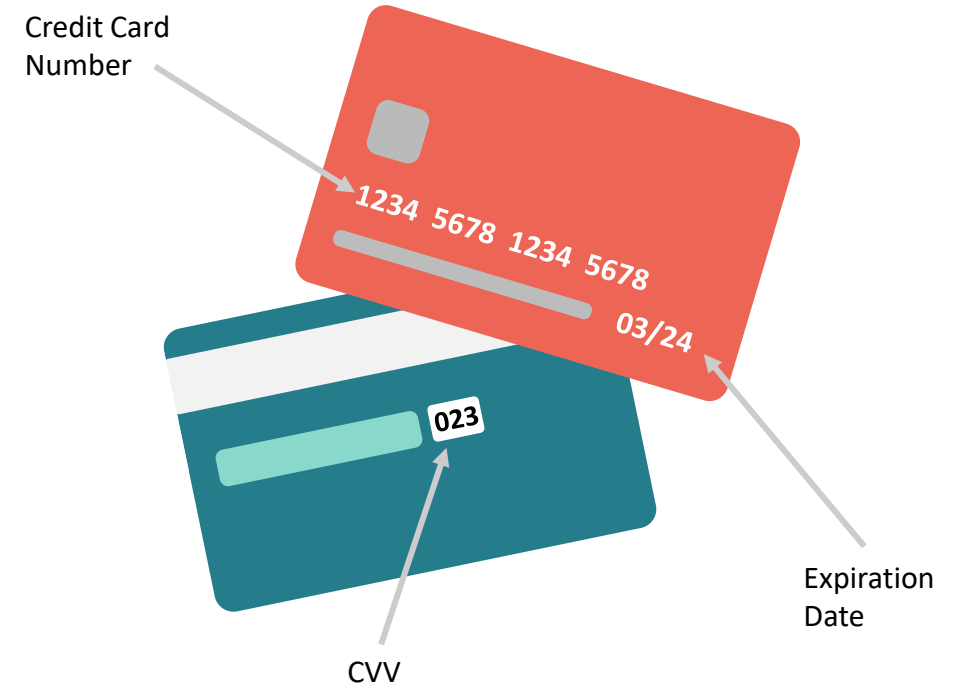
- First digit identifies the card issuer: 2 – Mastercard, 3 – American Express or Diner’s Club, 4 – Visa, 5 – Mastercard, 6 – Discover
- Next five to six digits are the bank identification number (BIN), which allows a transaction to be directed to the issuer associated with the card
- Remaining digits, except the last digit, are the cardholder’s account number
- Last digit is used to verify that the card is real and helps avoid issues with misentering a card number

2. Expiration Date

- Provides a date in which the card expires.

3. CVV (Card Verification Value)

- Provides additional security for card-not-present purchases, such as eCommerce. American Express has a four-digit code on the front of the card and all other cards have a three-digit code on the back of the card.



Trends are moving towards digital screens that automatically refresh to provide a new security code and a new 16-digit card number, and even moving away from credit card numbers and towards tokenization and encryption.

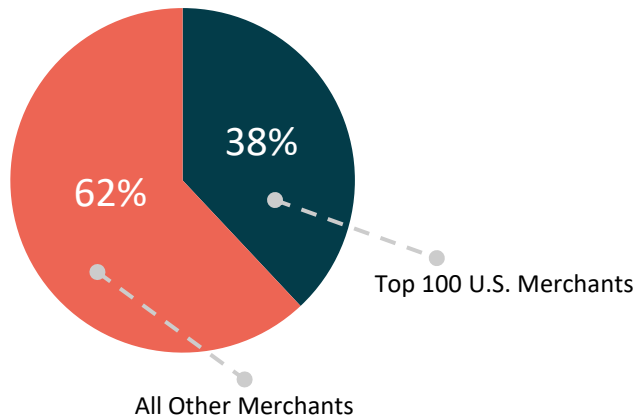
Size of the Payments Market - **PREVIEW**

Est. Merchant Share in the U.S.: Top 100 Versus “All Others”

Figures represent estimated data for 2023

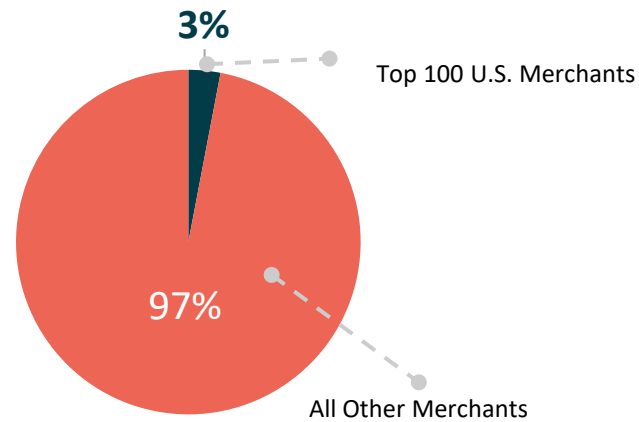
Dollar Volume

~\$11 Trillion



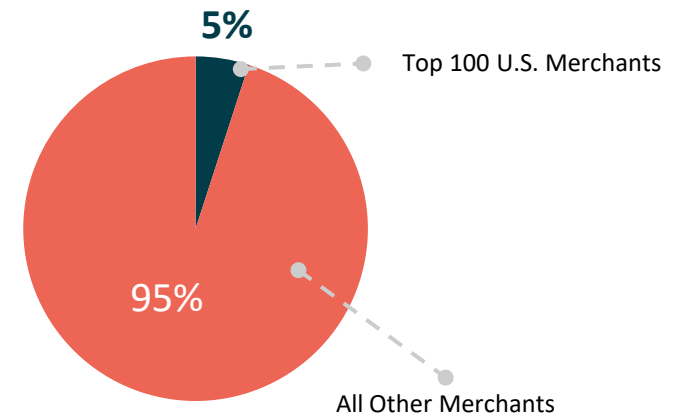
Merchant Outlets

~8 -10 Million



Net Revenue to Acquirers

~\$30 Billion



Merchants outside of the top 100 make up 95% of the revenue opportunity to merchant acquirers. This underscores the importance of the SMB market in terms of revenue to the payments space

$$\text{Net Revenue} = \text{Gross Processing Revenue} + \text{Other Income} - \text{Cost of the Transactions}$$

Other Income

- Equipment revenue
- Lease revenue
- Additional service revenue
- Monthly fees

Cost of the Transactions:

- Interchange
- Assessments and network fees
- Residuals paid to sub-ISOs
- Third Party Processing Costs



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



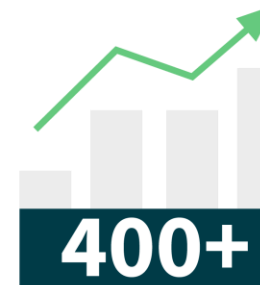
250+

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



COMPLETED MARKET INTELLIGENCE ANALYSES ON THE GLOBAL PAYMENTS LANDSCAPE, UNCOVERING HUNDREDS OF THOUSANDS OF DATA POINTS