RESEARCH NOTE NO. 1

Card Payments: A Structured Economic System

Who Captures the Value and Why It Matters

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Abstract

Card payments are among the most widely used financial instruments in Europe. Yet the system behind a simple tap or online transaction is considerably more complex than it appears. This note examines the structure of card payment flows, the role of each participant, and the economics that determine how value is distributed across the system. The analysis focuses on four-party card schemes in Europe, with particular attention to merchant-facing economics for consumer card transactions. The central finding is that card payments are not a neutral infrastructure: they are a structured economic system built on intermediation and incentive alignment, in which costs are systematically borne by merchants. Understanding this structure is the necessary starting point for evaluating how alternative payment rails may reshape the competitive landscape.

Scope of Analysis

This note focuses on four-party card schemes operating within the European Economic Area, with particular attention to merchant-facing economics for consumer card transactions governed by Regulation (EU) 2015/751. It does not attempt to cover three-party schemes, commercial card pricing, or the full range of cross-border and extra-EEA exceptions. All fee ranges cited are illustrative and drawn from publicly available sources.

Analytical Lens

This note approaches card payments through a merchant-economics lens. It examines the system not from the perspective of consumer convenience or network design, but from the standpoint of value capture, fee allocation, and structural bargaining power across the payment chain.

This note is for informational purposes only and does not constitute financial or legal advice. All figures are illustrative and based on publicly available data as of March 2026.

1. Introduction

Card payments are one of the most widely used financial tools in Europe. A consumer taps a card, a merchant sees a confirmation, and the transaction appears settled in seconds. The customer experience is seamless. The underlying system is considerably more complex.

Behind a single payment sits a network of institutions, each performing a specific function and capturing a portion of the transaction value. The merchant receives less than the customer paid. The difference does not disappear: it is distributed across the system according to rules that most merchants never fully see, and that most consumers never think about.

This note examines that system. The goal is not to evaluate whether card payments are good or bad. They clearly work, and they work at scale. The goal is to understand how value moves through the system, who captures it, and why the structure is built the way it is.

This is the first in a series of research notes by Savion Systems on the economics of payment infrastructure in Europe. The series will proceed from the current system to the pressures reshaping it, and ultimately to the implications of emerging payment rails for PSPs, merchants, and financial institutions.

2. The Five Core Participants

Every card transaction involves five distinct actors. Each plays a different operational role and occupies a different economic position within the system.

Participant	Role	Economic position
Cardholder	Initiates the payment	Pays implicitly through merchant pricing
Merchant	Accepts the payment	Bears the direct cost of the system
Issuing Bank	Provides the card, approves or declines	Captures interchange fee
Acquirer / PSP	Enables merchant acceptance, processes transactions	Captures acquirer margin
Network (Visa / Mastercard)	Routes transactions, governs the rules	Captures scheme fee at scale

A point worth noting before examining the flow: Visa and Mastercard do not move funds. They coordinate the system. The actual transfer of money occurs between the issuing bank and the acquiring bank through the settlement process described below. The networks provide the infrastructure and the rulebook. That distinction matters because it helps explain where power sits in the system. [1]

[1] European Commission. Regulation (EU) 2015/751 on interchange fees for card-based payment transactions (Interchange Fee Regulation). OJ L 123, 19.5.2015.

3. Transaction Flow: Authorization and Settlement

A card payment does not happen in a single step. It unfolds in two distinct phases, separated in time and involving different processes and different institutions.

3.1 Authorization

When the customer initiates a payment, the request travels from the merchant terminal to the acquirer, through the card network, and finally to the issuing bank. The issuer verifies available funds or credit, assesses fraud risk, and returns an approval or a decline within seconds. Authorization is immediate and determines whether the transaction proceeds.

At this stage, no money has moved. The issuer has made a commitment, but settlement has not yet occurred.

3.2 Clearing and Settlement

Following authorization, the transaction enters the clearing and settlement phase. The card network batches transactions and coordinates the transfer of funds between financial institutions. The merchant is typically credited on a T+1 basis.

This gap between authorization and settlement has real consequences for merchants operating at volume. A transaction approved on Monday generates cash in the merchant's account on Tuesday at the earliest. For businesses with significant payment volumes, this creates a structural working capital gap that is frequently overlooked in discussions about payment costs.

> **Key distinction:**
> Authorization is immediate. Settlement is not. The consumer experience suggests a completed transfer. The economics reflect a deferred one.

4. The Economics of Card Payments

The cost of accepting card payments is structured across three distinct components. Each flows to a different participant in the system.

4.1 The Interchange Fee

The interchange fee is paid by the acquirer to the issuing bank on each transaction. It is typically the largest single component of the total merchant cost. In Europe, interchange fees for consumer cards are regulated under Regulation (EU) 2015/751: capped at 0.2% for debit cards and 0.3% for credit cards.[2] Commercial cards, cross-border transactions, and cards issued outside the EEA are subject to different rules.[3]

The interchange fee functions as an incentive mechanism within the system. By compensating issuers for credit risk, fraud management, and card issuance costs, it encourages banks to issue and promote cards. Without this mechanism, the system would struggle to maintain issuer participation at scale. In this sense, the fee is not simply a charge for a service: it acts as a core incentive mechanism for issuers and, by extension, for the system as a whole.

[2]Ibid., Art. 3–4. Consumer debit cards are capped at 0.2%; consumer credit cards at 0.3%. Commercial cards and cards issued outside the EEA fall outside these caps.

[3]European Central Bank. Card payments in Europe — current landscape and future prospects. ECB Occasional Paper. Frankfurt: ECB. The ECB monitors card payment volumes and fee structures across member states as part of its payment statistics mandate.

4.2 The Scheme Fee

The scheme fee is paid to the card network for access to the global infrastructure, transaction routing, and system governance. Networks operate in a highly concentrated market structure,[4] with two dominant players accounting for the vast majority of European card transaction volume. Their fee per transaction can be relatively small, but the volume of transactions is enormous, generating a highly profitable position built on scale rather than unit margin.

4.3 The Acquirer Margin

The acquirer margin is retained by the acquirer or payment service provider. It covers merchant onboarding, transaction processing, and any value-added services provided, such as fraud tools, reporting, or integration support. Acquirer margins vary significantly depending on merchant size, transaction volume, and negotiation power. Larger merchants generally access better terms.

4.4 A Realistic Cost Structure

The following table presents an illustrative cost structure for a typical consumer card transaction in Europe. All figures are indicative ranges derived from publicly available market data and regulatory sources, and should not be treated as precise fee schedules.[5][6]

Component	Recipient	Illustrative range (consumer cards, EEA)
Interchange fee	Issuing bank	0.2% (debit) / 0.3% (credit) — regulated
Scheme fee	Visa / Mastercard	0.05% to 0.15% (variable by volume)
Acquirer margin	Acquirer / PSP	0.3% to 1.5% (variable by merchant)
Total merchant cost	System	~1.5% to 2.5% (illustrative scenario)

> **Illustrative example:**
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> On a hypothetical EUR 100 consumer card transaction, a merchant may receive roughly EUR 97.50 to EUR 98.50 net. The remaining EUR 1.50 to EUR 2.50 is distributed across interchange, scheme fees, and the acquirer margin. The exact split depends on the merchant setup, card type, and applicable commercial agreements. This figure is illustrative only.

The wide range in total cost reflects one of the less visible characteristics of the system: limited transparency. A merchant processing payment at significant volume with a sophisticated treasury function will negotiate a materially different rate than a small retailer accepting cards for the first time. The underlying fee components are structurally identical. The effective cost is not.

[4]Merchant fee structures vary significantly across member states, merchant size, and card type. The ranges cited here are illustrative and are consistent with publicly reported merchant service charge data across European markets.

[5]European Banking Authority. Report on the application of Interchange Fee Regulation. EBA, 2020. Available at: eba.europa.eu. Notes significant variance in total merchant service charges across member states.

[6]Visa Inc. and Mastercard Inc. Annual Reports, 2023–2024. Both networks generate revenue primarily through data processing and service fees levied on a per-transaction basis, illustrating the scale advantage described.

5. Who Captures the Value

The distribution of value in the card payment system is asymmetric by design. Each participant occupies a different position, with different leverage and different incentives.

- **Issuers** capture the largest share of the fee pool via interchange, compensating for credit risk, fraud management, and the cost of card issuance.
- **Networks** benefit from a highly concentrated market structure. Their fees are small per transaction; their volume is vast.
- **Acquirers** operate in a more competitive environment, with margins that compress over time as the market matures and alternative providers enter.
- **Merchants** bear the cost of the system. In many merchant contexts, alternatives to card acceptance remain limited, which reduces their ability to negotiate or exit.
- **Consumers** rarely perceive these costs directly. The system is designed to make the cost invisible at the point of transaction.

This structure reflects a deliberate alignment of incentives that keeps issuers motivated to participate, networks dominant, and acquirers competitive. The cost falls on merchants because they are the ones who need the system to function, and who historically have had the least structural leverage to resist it.

> The system persists because it remains attractive to the actors with the greatest structural power. The cost is externalized to merchants because, in most markets, they have no comparable alternative infrastructure to turn to.

6. Why This System Exists

Given its cost structure, a reasonable question is why the card payment system continues to dominate. The answer is not that it is inherently efficient. It is that it delivers things that alternatives, for most of its history, could not match at scale.

Global acceptance is the most significant. A merchant that accepts Visa or Mastercard accepts every cardholder in the world, regardless of which bank issued their card. That reach has real economic value: it expands the addressable customer base and removes friction from the purchase decision.

Fraud protection and dispute resolution are the second dimension. The chargeback mechanism, while imperfect, gives consumers a form of transaction insurance that direct account-to-account transfers have historically lacked. For merchants, this also means that fraud liability is partly absorbed by the network and the issuer, rather than sitting entirely with the merchant.

Standardization across markets is the third. A payment accepted in Milan works on the same infrastructure as one accepted in Amsterdam or Madrid. The rulebook is uniform. The settlement mechanics are predictable. For merchants operating across borders, that standardization reduces operational complexity.

The cost of the system is, in part, the price of these properties. Whether that price remains justified as alternative payment rails mature is a question the market is beginning to ask more seriously. These rails settle faster, involve fewer intermediaries, and operate under different governance models.

7. Conclusion

Card payments are not a neutral piece of infrastructure. They are a structured economic system in which value is distributed across multiple layers according to rules that favor issuers and networks, externalize costs to merchants, and remain largely opaque to the consumers who use them.

The system works. It has worked at global scale for decades, and it delivers genuine value in the form of reach, fraud protection, and standardization. But its cost structure reflects a degree of intermediation that has become increasingly visible as alternatives emerge.

This becomes even clearer when card payments are compared with payment rails that settle faster, involve fewer intermediaries, or rely on different governance models. Instant payment systems in Europe, operating under the SEPA Instant Credit Transfer framework, already allow account-to-account transfers with funds made available in less than ten seconds within the SEPA area.

The digital euro, currently in its preparation phase following the ECB closing report of October 2025[7], raises the question more directly: does the level of intermediation built into card payments remain justified when the infrastructure layer is provided by a central bank, and when basic services for citizens would be free of charge?[8]

That question is the subject of the next note in this series.

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About Savion Systems

Savion Systems analyses how value is created in modern payment infrastructures, with a focus on the economic impact of emerging systems such as instant payments and the digital euro.

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[7]European Payments Council. SEPA Instant Credit Transfer Rulebook, Version 1.1. Brussels: EPC, 2025.

[8]European Central Bank. Digital euro — closing report of the preparation phase. Frankfurt: ECB, October 2025.