



EXECUTIVE INSIGHTS

Finding the New Balance: Rewards Cards After the Visa-Mastercard Merchant Settlement

For the past two decades, rewards credit cards have relied on a delicate four-way balance: Issuers and their co-brand partners fund rich rewards with interchange economics; consumers “pay” through annual fees, interest and often higher prices passed through by merchants; and merchants swallow acceptance costs in exchange for conversion and ticket lift.

The November 2025 Visa-Mastercard settlement disrupts this equilibrium by giving merchants new tools to say “no” or “not without a fee” to consumers presenting specific card types. This settlement is unfolding alongside a broader set of legal and regulatory developments in Washington that could further reshape credit card economics, underscoring that the rewards model now faces multiple, overlapping sources of pressure.

Below is a breakdown of what’s in the settlement, why it matters, and the questions issuers and co-brand partners should be asking now.

What has been agreed: **Headline features of the settlement**

After nearly 20 years of litigation in “In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation,” Visa and Mastercard have agreed to a revised equitable relief settlement with U.S. merchants. Although it still requires court approval and could be appealed, L.E.K. Consulting has summarized some key provisions.

Modified “honor all cards” rule

Merchants can choose whether to differentially accept or decline Visa or Mastercard commercial credit cards, all standard consumer credit cards and/or all premium consumer

credit cards (where most high-fee/high-rewards products sit). They can make different choices for Visa versus Mastercard, and there will be mandatory visual identifiers on commercial and premium cards to support selective acceptance at checkout.

Expanded surcharging flexibility on credit (not debit)

Merchants may surcharge consumers presenting Visa- or Mastercard-branded credit cards the lower rate of 3% or their cost of acceptance at the brand level or at the individual product level (for example, only premium rewards cards). They can surcharge one card scheme but not another or surcharge schemes differently, and they can surcharge Visa/Mastercard regardless of whether they surcharge American Express or Discover.

Rate cuts and caps for credit interchange

Visa and Mastercard commit to reduce the average effective credit interchange rate by at least 10 basis points (bp) for five years. Standard consumer credit cards are capped at 125 bp for eight years.

Broader steering and acceptance tools, including wallets

Merchants can decline premium or commercial cards, conduct A/B testing to gauge customer response by location (e.g., online/offline channel, urban/rural geo, standard/micro store type) and steer within digital wallets under the same rules that apply for plastic cards. They can accept some wallets and not others or enable certain wallets only online.

Merchant buying groups and education

The settlement explicitly enables merchant buying groups to negotiate interchange and rules collectively. A \$21 million education fund will support merchant understanding of the new rule set.

Changes for merchants at checkout and customer response scenarios

In practical terms, the settlement gives merchants a more granular tool kit for influencing their payment acceptance economics.

Friction at the point of sale (POS), customer pushback and the cost of change mean that wide-scale hard declines of premium cards are unlikely outside a few high-margin or cost-sensitive sectors. More probable early moves are:

- Surcharges for the customer across all credit cards or at the premium tier
- Quiet pilots in specific categories such as fuel, small-ticket retail, and high-fee delivery or subscription verticals to test consumer response
- More aggressive acceptance strategies in ecommerce, where routing and tender steering are easier to control and A/B test via checkout flows

As merchants adjust their acceptance and pricing strategies, consumer behavior will play a critical role in determining the real impact — particularly in the current rising-cost environment, which is already trying consumer patience at checkout. Several plausible scenarios emerge.

Scenario A: Consumers absorb occasional surcharges but maintain primary card habits

Assuming surcharging is applied inconsistently and only at selected merchants:

- Many consumers may tolerate a 1%-3% fee at the POS when the convenience or rewards outweigh the cost
- Premium cards remain "top of wallet," but frustration grows in categories with frequent surcharging
- Card issuers may respond with targeted statement credits to mitigate visible pain points

Scenario B: Consumers shift toward standard credit or debit cards to avoid fees

More widespread surcharging or selective declines could accelerate behavioral change:

- Consumers may begin carrying a "backup card" (standard credit) specifically to avoid surcharges
- Frequent travelers or high-spending households may continue to favor premium cards, but occasional cardholders may migrate to lower-fee tenders
- Debit rewards programs could become more attractive if they avoid surcharges and offer competitive earn rates, particularly for certain customer segments

Scenario C: Consumers become more tender-agnostic and more price-sensitive

If merchant communication at checkout normalizes discussions of payment cost:

- Awareness grows that paying with a premium card is "more expensive," even if consumers do not fully understand interchange

- Some consumers may choose based on real-time price signals at the POS, not on habit
- A portion of consumers may shift toward merchant-preferred tenders, including instant bank pay, store cards or buy now, pay later (BNPL)

Scenario D: Consumers push back, creating reputational or operational risk for merchants

If surcharging or selective acceptance becomes too visible or inconsistent:

- High-value customers may take their business elsewhere when confronted with fees on premium cards
- Merchants could face backlash for “penalizing loyalty,” especially in categories with strong co-brand ecosystems (e.g., travel, luxury retail)
- Consumer dissatisfaction may moderate how aggressively merchants deploy the new tools

Strong customer research will be important for understanding customer behaviors across segments — though we do believe premium cards will always have an important role in the market.

Modest changes may have limited impact, while widespread surcharging or declines could quickly reshape top-of-wallet dynamics.

Implications for issuers

For issuers, the settlement is less about the headline 10 bp rate cut and more about optionality shifting toward merchants. It introduces new vectors of risk including:

- **Selective acceptance risk for premium portfolios**

Premium cards such as Chase Sapphire Reserve or Citi Prestige sit squarely in the “premium consumer” bucket that merchants are now explicitly allowed to decline.

Even limited merchant adoption could erode top-of-wallet status if consumers experience checkout friction and feel compelled to carry a standard card backup.

- **Normalization of surcharging on rewards spend**

The settlement codifies up to 3% surcharges on credit card usage, including at the product level for premium rewards cards. Over time, consumers may start seeing “3% fee for rewards cards” in the same way they see out-of-network ATM fees today. Issuers face a choice: Allow

the fee to bite, effectively reducing the net value of rewards and risking attrition. Or partially offset the fee via statement credits, targeted rebates or merchant-funded offers, which would compress economics.

- **Interchange compression and portfolio mix shift**

With standard consumer interchange capped at 1.25% for eight years, there is now a clear economic wedge between standard and premium products. If merchants actively steer away from premium, issuers may see volume migrate to capped-interchange standard cards without commensurate reduction in rewards expectations.

- **Greater focus on non-interchange revenue and engagement**

To defend program economics, issuers are likely to lean harder on:

- Annual fees, co-brand partner funding, and cross-selling into deposits, lending and wealth
- High-margin lending (revolvers) and ancillary fees, which regulators are already scrutinizing

Implications for co-brand partners

Co-brand partners (airlines, hotel groups, retailers, tech platforms) are exposed in two ways: Their economics are deeply tied to premium card interchange, and their customer experience is closely associated with card usability.

Several potential shifts emerge:

- **Value proposition under more visible fees**

If a cardholder faces a surcharge at checkout specifically on a co-brand premium card, the perceived value of miles or points is immediately questioned. Programs with high earn rates but limited redemption value may come under particular pressure as customers do the math at the till. And increased consumer education will be important, especially for cards with higher annual fees.

- **Negotiation dynamics with issuers**

If issuers need to rely less on premium interchange and more on partner-funded benefits, co-brands may be pushed to increase contribution (higher mileage purchasing costs, more marketing support, more exclusivity or a different share of annual fee revenues).

Conversely, strong brands with demonstrable incremental spend may be able to argue for a greater share of a shrinking economic pie, especially where they can provide alternative low-cost payment rails (e.g., direct debit or account to account).

- **Channel and tender diversification**

Leading travel and retail brands already promote alternative rails such as BNPL, pay-by-bank or private-label/store cards. The settlement makes it incrementally more attractive for a co-brand to:

- Offer own-brand tenders that are cheaper to accept and still reward-rich (e.g., debit rewards, bank-linked wallets)
- Push “direct” channels where they can control tender steering and surcharging narratives

- **Competitive positioning versus American Express**

American Express is not directly covered by this settlement and thus is outside the new caps and specific rule changes. However, the surcharging rules allow merchants to surcharge Visa/Mastercard even if they do not surcharge Amex, or vice versa, which creates scope for targeted merchant strategies against the highest-cost brands. Co-brand programs on the Amex network will need to model whether they become more exposed to surcharging and nonacceptance if merchants treat Amex as the “top tier” to discourage.

Where this leaves the rewards balance — and questions to ask now

This settlement does not immediately dismantle the U.S. rewards ecosystem. The fee reductions are modest on a systemwide basis, and the behavioral leap required for merchants to actively decline popular premium cards is significant.

However, it does these three important things:

- It breaks the illusion that merchants must accept every flavor of premium card if they accept the brand at all
- It normalizes explicit pricing of credit card usage, particularly for high-reward products
- It legitimizes merchant coalition-building and experimentation (buying groups, pilots, wallet steering) that could, over time, reshape volume flows

Given that, we suggest the following questions for senior teams.

If you are an issuer, you should be asking:

- How concentrated are our economics in premium interchange, and what is our profit-and-loss sensitivity to
 - A meaningful shift of volume from premium to standard cards
 - 1%-3% surcharges on a portion of our premium portfolio volume?
- Which merchant verticals are most likely to use the new tools first, and how exposed are we by sector and by co-brand partner?
- Do we have a clear strategy for supporting customers at the POS when surcharges or nonacceptances occur (e.g., education, alternative tenders, statement-credit offers)?
- Are we comfortable with our non-interchange revenue mix and our ability to deepen relationships via deposits, lending and wealth if interchange compression accelerates?
- How do our network choices (Visa, Mastercard, Amex and potentially others over time) position us if legislative pressure continues to build on interchange and routing?

If you are a co-brand partner, you should be asking:

- Where does my co-brand program sit on the spectrum from “essential spend enabler” to “nice to have” rewards, and how resilient is customer usage if fees become more visible?
- How dependent is my economics on high-interchange and premium card spend, and what happens to the program NPV if:
 - A portion of my customers shift to lower-tier cards
 - Key merchants in my ecosystem introduce differentiated surcharging?
- Should I accelerate alternative tender strategies (store cards, debit rewards, account to account, wallets) that keep customers in my ecosystem while reducing acceptance costs?
- Do I have the right contractual levers with my issuing partner to rebalance economics if interchange is further constrained, or if merchant behavior materially changes?
- How should I communicate with my most valuable customers about possible changes without undermining confidence in the program before anything becomes real?

The settlement is not the end of the story. It is a negotiated compromise in a world where merchant activism, regulatory scrutiny and new payment technologies are all moving in the

same direction: more transparency on costs and more leverage for payers of those costs. Issuers and co-brands that start stress-testing their portfolios and customer experience now will be better positioned if and when merchants decide to use the new tools they have just been given.

For more information, please [contact us](#).

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