

# Payments Strategic Sourcing

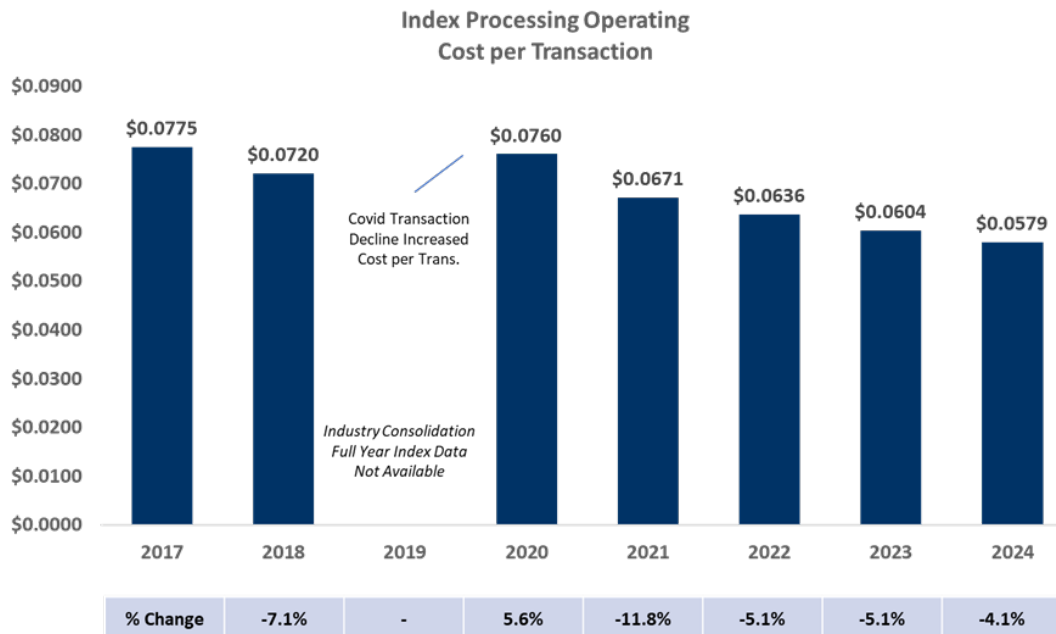
Industry Insights

April 2025

## Card Processor Operating Costs (Per Transaction) Continue to Decline at a Robust Rate.

McGovern Smith has tracked processor operating costs over the past 15 years and recently updated its Processor Cost Index<sup>1</sup> for 2024. The index measures the per transaction decline in operating costs across an index of card processors and provides a relevant fact-base to card issuers as they approach contract renewal or competitive selection processes. Since many contracts for credit and debit card processing have variable or per-transaction based pricing structures, card issuers should attempt to mirror the decline in processor operating costs over time during contract renewal/selection processes.

In 2024, processor operating costs per transaction fell by 4.1%. This is the third straight year that processor operating costs per transaction fell by a healthy amount and were not otherwise influenced by the pandemic. Most processors continue to benefit from platform leverage and scale and many card issuers continue to pay fees that outpace the underlying delivery costs of their processors.



To keep pace with these declines, issuers that executed credit and/or debit processing contracts in or around 2018 should target **unit cost savings of 19.6%** today to mirror the decline in processor operating costs per transaction 2018 to 2024. Likewise, McGovern Smith forecasts processor operating cost per transactions will decline by 4.2% in 2025, assuming a conservative uptick in operating costs and higher transaction growth (see Select Data chart below). Using this forecast, issuers that executed related contracts in 2021 should, at a minimum, target **unit cost savings of 17.3%** to mirror the decline.

<sup>1</sup> Index measures third party card issuer processing and related services (e.g., ATM driving, EFT network, back-office, etc.) operating expenses per transaction. The Index is derived from SEC filings, industry statistics and other public information. 2020 % Change is measured from 2018 data.

The data continues to suggest that issuers should strongly push back on most fee escalators (particularly those related to scalable transaction processing) pursued by processors tied to CPI or other factor – even if they are included in current agreements. There appears to be no reasonable rationale for processor fee escalators, outside possibly FTE-based delivery services such as customer service or dispute processing.

**Select Data<sup>2</sup>**

% Change	2018	2019	2020	2021	2022	2023	2024	2025E
Total Operating Expense	0.8%	-	11.6%	4.2%	3.3%	2.3%	2.1%	2.5%
Total Transactions	8.5%	-	5.7%	18.1%	8.8%	7.8%	6.4%	7.0%
Operating Cost per Transaction	-7.1%	-	5.6%	-11.8%	-5.1%	-5.1%	-4.1%	-4.2%

While the index results and forecast should be targeted by many for their respective businesses, individual savings will continue to be influenced by a variety of factors, including incumbent providers, current or baseline pricing, contract duration, mix of services, program size and growth, the process employed (competitive RFP processes tend to drive better results than renewal or renegotiation processes), the amount of value-added services (which typically are priced at a premium), and others.

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**McGovern Smith Advisors - Payments Strategic Sourcing Offerings**

Card Brand / Network	Processing / Related Services	Back-Office / Other
<ul style="list-style-type: none"> <li>• Consumer/Small Business Credit</li> <li>• Commercial Card</li> <li>• Signature / Prepaid Debit</li> <li>• EFT - Issuing (PIN-POS &amp; ATM)</li> <li>• EFT - ATM Acquiring</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Card Processing</li> <li>• Signature &amp; PIN-Debit Processing</li> <li>• Commercial Card Management</li> <li>• ATM Driving / ATM as a Service</li> <li>• Merchant Acquiring / Servicing</li> </ul>	<ul style="list-style-type: none"> <li>• Customer Service</li> <li>• Fraud Detection &amp; Operations</li> <li>• Dispute Processing</li> <li>• Collections</li> <li>• Application Processing / Bureaus</li> </ul>

<sup>2</sup> 2020 % Change is measured from 2018 data.