

What Is Mastercard?

Description

Most people associate **Mastercard** with the iconic logo featuring interlocking red and orange circles. But what exactly is Mastercard? How does it relate to <u>credit cards</u>? And what role does it serve in the broader financial services industry?

Mastercard is an American-based corporation that provides electronic payment-processing services. Its core business facilitates credit card, debit card, and prepaid card payments between consumers and companies. It performs this service by providing a platform where these transactions can take place.

Mastercard authorizes, clears, and settles billions of payments per year, making it a dominant player in the payment-processing industry. Its main competitor is <u>Visa</u>, which holds the greatest market share in the industry. **American Express** and **Discover** are close rivals also.

Is Mastercard a credit card?

No, Mastercard isn't a credit card. It doesn't extend credit to consumers, nor does it issue any credit cards. As mentioned, its role is more akin to a technology company. It provides the underlying infrastructure that enables the efficient processing of credit card payments. In contrast, American Express and Discover both serve as payment processors and credit card issuers.

Banks and credit unions are the entities that directly supply credit cards to their clients. They're also the ones who lend the funds that clients access through their card's revolving credit line. At no point do you as a consumer interact with Mastercard. You only deal with the financial institution that issued you your credit card.

How Mastercard works with card issuers

Mastercard's business model is inextricably linked to card issuers. Through a branding relationship, it partners with banks and credit unions to distribute credit cards, debit cards, and prepaid cards. The

presence of a Mastercard logo on a bank card is indicative of this partnership. If you use such as card, any payments will be routed through the Mastercard network.

Besides banks and credit unions, Mastercard also engages in branding arrangements with firms in other industries, such as retail. Notable ones include **Canadian Tire**, which offers the Triangle Elite MasterCard, and **Walmart**, which provides the Walmart Rewards World Mastercard. Oftentimes, these non-financial firms will work with Mastercard indirectly through a co-branded partnership with a financial institution.

In the case of credit cards, the card issuer's role includes a variety of tasks. They're responsible for

- Vetting the creditworthiness of individuals to determine whether they qualify for a credit card;
- Establishing the card's terms and conditions, which include the <u>APR</u>, fee structure, and <u>credit limit</u>:
- Crafting the card's rewards programs; and
- Reducing credit limits or suspending accounts of cardholders who violate the terms and condition
 of the contract.

Mastercard may play a role in shaping some of the cards' features (namely, the rewards program). However, it primarily deals with the backend work of validating, clearing, and settling payments.

How does Mastercard make money?

Mastercard earns the bulk of its revenue from two sources: service fees and data-processing fees. Both fees are relatively small. But with billions of transactions made every year, it quickly adds up.

Service fees, also known as "swipe fees," are paid by financial institutions and are based on a percentage of total account holder activity. Each time you pay a merchant through a point-of-sale-terminal, Mastercard receives a cut of whatever the sale is. Due to this fee, some merchants refuse to accept cards as payment methods, as it eats into their profit.

Data-processing fees cover the costs involved in authorizing, clearing, and settling payments through the network. Card issuers are typically responsible for paying these as well. Unlike service fees, Mastercard assesses data-processing fees on a per-transaction basis.

Mastercard's other revenue sources include currency conversion fees charged on international transactions, consulting, data research, security services, and loyalty rewards.

Does Mastercard offer any perks or benefits?

Mastercard exerts some influence when it comes to credit card perks and benefits. Through its platform, it offers three levels of benefits: Standard, World, and World Elite.

Depending on which tier your credit card belongs to, you may receive benefits like ID theft protection, zero liability for fraudulent transactions, car rental upgrades, concierge services, airport lounge access, emergency card replacement, free hotel nights, and insurance services.

Card issuers ultimately decide which benefits to include as part of their cards' <u>rewards programs</u>. For this reason, you may find it challenging to have access to all the benefits you wish.

Is it better to use Mastercard or Visa?

Let's suppose you're in the market for a new credit card. In that case, would it be better to obtain one with the Mastercard brand or its closest rival, Visa?

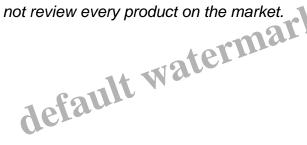
For the most part, the differences between the two brands are trivial. The card issuer, not Mastercard, sets the most relevant aspects of credit cards that you need to consider. Ensure you evaluate credit cards based on factors like the interest rate, <u>annual fee</u>, rewards program, and credit limit, etc. You should choose the card that's best for your spending needs, financial goals, and budget.

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