

PAYMENTS

What Visa's Web3 loyalty tool means for cash-back rewards

By [Kate Fitzgerald](#) January 17, 2024, 2:13 p.m. EST 3 Min Read



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While merchants [escalate their fight against so-called swipe fees](#) requiring them to [pay more than \\$160 billion annually](#) to [fund banks' credit and debit card rewards programs](#), Visa is taking consumer loyalty in a new direction.

The global card network this month unveiled the Visa Web3 Loyalty Engagement Solution, which enables brands to reward customers with "digital collectibles" and virtual experiences stored in [digital wallets](#), in contrast to [popular cash-back rewards programs](#), points and [airline mileage](#).

Visa's newest rewards program relies on [Web3](#), which uses advanced web technology to give users access and control over their own data in a decentralized network, versus existing card loyalty programs where consumers receive rewards for card purchases within Visa's merchant network.

Virtual reality experiences — however compelling they may be with steadily improving technology — won't supplant cash-back rewards, perennially the most popular credit card reward option. Travel rewards through airline and hotel partners, which support some of the biggest co-branded credit cards in the U.S., are a close second.

But Visa's move is a sign of changes that are likely to come in the next several years in the way card networks and banks manage traditional card rewards, as merchants push back against the existing card rewards system and technology evolves.

"Cash rewards tend to be preferred by consumers, but if legislation like the [Credit Card Competition Act](#) gains scale, issuers that don't prepare in advance may be stuck with a model that doesn't meet the demands of consumers," said Brian Riley, director of credit advisory services and co-head of payments at Javelin Strategy & Research.

Visa's Web3 platform also anticipates new rewards-management technology including instant redemption and the ability to combine rewards with other offers to increase consumer engagement with brands, Riley noted.

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Visa is pioneering a Web3 rewards program that could take years to develop.

Most banks are unlikely to abandon popular cash-back card programs any time soon, and Web3 is so new it's not on the radar of most consumers, according to analysts. But Web3's foundation in digital technology fits into the rapid digitization of payments, said David Shipper, a strategic advisor with Datos Insights.

"Offering digital rewards makes a lot of sense with how consumers interact with the real and digital worlds, and Visa's idea could have legs if it's simple to use and consumers perceive the rewards as valuable," he said.

Digital rewards could also be created at a far lower cost than cash-back rewards. Combined with creative brand partnerships, issuers might find Web3 rewards to be a more practical way to reward consumers for debit card transactions, which can be costly to fund because the interchange rates for debit cards are significantly lower than credit card swipe fees, Shipper said.

To launch its Web3 loyalty platform, Visa has teamed with SmartMedia Technologies, a Carbondale, Colorado-based software firm that drives Web3 consumer engagement by distributing [non-fungible tokens \(NFTs\)](#) for consumer promotions. Visa is using this technology to build a platform for rewarding consumers with perks and benefits they can redeem for virtual, digital or real-world experiences in sectors like travel and sports, said Kathleen Pierce-Gilmore, senior vice president and global head of issuing solutions at Visa.

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"Merchants across industries can provide Visa cardholders with benefits and features that align best with their brand goals, such as gamified giveaways, digital coupons, event access or immersive augmented reality experiences," she said.

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[Web3 loyalty programs](#) are not entirely new, but it appears to be new territory for banking and card payments, said Ketharaman Swaminathan, founder and CEO of India-based GTM360 Marketing Solutions, which works closely with fintechs on payments.

"Visa may have captured a sweet spot [by being first to exploit Web3 loyalty for card payments], Swaminathan said. But he suspects Visa has other motives for diving into Web3 to develop alternative card rewards.

"Potential revenue from Visa's Web3 initiative would likely be small, but I'm willing to speculate that Visa has interest in acquiring something in the crypto space and is using this Web3 initiative to dip its toes in the water," he said.

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