

Annex 5 to Interim Report

# Market review of scheme and processing fees

Competition for issuers –  
evidence from internal  
documents and  
issuers' submissions

May 2024

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Note: The places in this document where confidential material has been redacted are marked with a [X]

# Annex 5

## Competition for issuers – evidence from internal documents and issuers' submissions<sup>1</sup>

### Introduction

- 5.1** This annex discusses the evidence we have collected on the competitive constraints that Mastercard and Visa face when providing scheme and processing services to issuers. Our analysis is based on evidence from Mastercard's and Visa's internal documents and issuers' responses to formal and informal information requests.
- 5.2** Mastercard identified [redacted] 'senior custodians'. We asked Mastercard to provide any presentations or reports these custodians either sent or received on the competitive landscape for the provision of scheme and processing services to issuers.
- 5.3** We asked Visa to provide any documents created between 2017 and 9 November 2022 referring to either the competition Visa faces in the provision of scheme and processing services to issuers, or alternative suppliers of those services.
- 5.4** We sent Section 81 notices requiring the provision of information to 11 issuers.<sup>2</sup> We also sent a voluntary questionnaire to a small issuer, [redacted]. In 2021, these issuers collectively accounted for over 90% of the value of UK card transactions for Mastercard and Visa.
- 5.5** The rest of this annex is structured as follows:
- **Context for competition:** This section discusses competition on the issuing side, considering how contracts are negotiated, the extent of single- and multi-homing among issuers, and the set of available providers.
  - **Dimensions of competition:** This section discusses the evidence on dimensions of competition, including both price and non-price factors.

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1 Further evidence relevant to an assessment of competitive constraints in the provision of scheme and processing services to issuers is included in Annex 6.

2 [redacted].

- **Intensity of competition:** This section considers issuers’ bargaining power, focusing on:
  - how Mastercard and Visa segment their issuer base and how issuers’ bargaining power may vary between segments
  - possible barriers to issuers switching between card schemes
  - Mastercard’s and Visa’s strategies and how they may have changed in recent years

## Context for competition

**5.6** Issuers in the UK typically base their choice of card schemes on the outcome of negotiations, often following formal tender processes. Mastercard and Visa are usually the only scheme operators invited to these tenders. Issuers can adopt different strategies when tendering for their card portfolio: select a single scheme for all their cards, select different schemes for different portfolios, or issue the same type of card on both schemes. Each approach has advantages and disadvantages.

### How contracts are negotiated

**5.7** The issuers we engaged with told us they negotiate bespoke agreements with the card schemes. This takes place primarily around the award of new multi-year contracts. Mastercard told us that the Customer Business Agreements it negotiates with issuers are [redacted] for scheme services<sup>3</sup> and generally [redacted] for processing.<sup>4</sup> Visa told us that [redacted].<sup>5</sup> However, Visa told us [redacted]. Ten out of 12 issuers told us that they negotiated with Mastercard and/or Visa between January 2017 and January 2023. Eight out of 12 issuers undertook these negotiations through tender processes, while two out of 12 engaged in non-tender bilateral negotiations with the schemes.<sup>6</sup>

**5.8** We asked issuers which schemes they contacted when sending tenders for offers and negotiations. All the issuers that sent tender requests to schemes contacted only Mastercard and Visa.<sup>7,8</sup> We also asked issuers what alternatives there are to Mastercard and Visa when choosing a card scheme.

- All issuers stated that Mastercard and Visa are the only options in the UK for debit cards.<sup>9</sup>
- Ten out of 12 issuers stated that Mastercard and Visa are the only options in the UK for credit cards.<sup>10</sup>

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3 Mastercard response to PSR questions dated 9 November 2022. [redacted].

4 Mastercard response to PSR questions dated 9 November 2022. [redacted].

5 VISA Europe’s response to PSR questions dated 9 November 2022. [redacted].

6 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

7 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

8 This excludes co-brand tenders in which the merchant decides the winning scheme (Stakeholder response to PSR information request dated 11 January 2023 [redacted]).

9 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

10 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

- 5.9** Eight issuers explained that Mastercard and Visa are the only alternatives to one another for both credit cards and debit cards as other schemes have low merchant acceptance. Four issuers told us that American Express is not a viable partner because it does not work with issuers as a card scheme in the four-party card system.<sup>11</sup> Two issuers said that American Express or UnionPay could be scheme partners, but explained that the lower merchant acceptance rate made them less appealing.<sup>12</sup>
- 5.10** Mastercard’s and Visa’s internal documents indicate that [REDACTED].<sup>13,14</sup> [REDACTED] Visa’s internal documents indicate [REDACTED]. For example, a 2019 Visa internal document states that [REDACTED].<sup>15</sup>
- 5.11** Card issuers often release a ‘request for proposal’, allowing card scheme operators to bid to become the scheme and network processor for a category of cards.<sup>16</sup> Issuers can announce requests for proposal for any category of cards. This means that a scheme operator may be bidding for one card type, or a set of card types (for example, credit or debit, consumer or commercial), for new customers only, or for a card issuer’s whole card portfolio.
- 5.12** Visa’s internal documents on plans for upcoming requests for proposal show that, in some cases, [REDACTED].<sup>17</sup>
- 5.13** A proposal made by Mastercard to an issuer included two different offers, one covering only the front book, the other both the front book and the back book.
- 5.14** Issuers may negotiate deals [REDACTED].<sup>18</sup> Issuers sign deals [REDACTED].<sup>19</sup>
- 5.15** It is not common for issuers to renegotiate outside of contract renewal.
- Two issuers said they can and do negotiate lower increases in fee levels or delay the application of increased fees.<sup>20</sup>
  - Two issuers told us they do not need to negotiate fee changes because their contracts include mechanisms for rebates or discounts that adjust automatically following changes in fee levels.<sup>21</sup>
  - Seven issuers indicated that they cannot reject fee increases.<sup>22</sup> However, two of these did describe occasionally agreeing temporary fee reductions or delays – for instance, to allow more time to implement a change.<sup>23</sup>

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11 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

12 Stakeholder responses to PSR information request dated 11 January 2023 [REDACTED]. One issuer [REDACTED] indicated that for pre-paid cards, an electronic money institution (EMI) could be the card scheme brand. However, the issuer also noted that these alternatives could still use Mastercard and Visa payments at the funding stage.

13 Examples from Mastercard include [REDACTED].

14 When competing for a co-brand deal, four-party schemes like Mastercard and Visa can either partner with an issuer of their choice, or work with an issuer selected by the merchant co-branding the cards.

15 [REDACTED].

16 As discussed in Annex 3, paragraph 17, [REDACTED].

17 [REDACTED].

18 See, for example, [REDACTED] and [REDACTED].

19 See, for example, [REDACTED]; [REDACTED].

20 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

21 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

22 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

23 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

## Single- and multi-homing

- 5.16** Issuers may choose to issue cards on only one card scheme (*single-homing*) or use multiple card schemes (*multi-homing*). Some issuers multi-home using different card schemes for different card portfolios – for example, using Visa for consumer debit cards and Mastercard for consumer credit cards. Some issuers multi-home with different card schemes for a single card portfolio – for example, using both Visa and Mastercard for consumer debit cards. Of the 12 issuers that responded to our information request, at least eight engage in some form of multi-homing<sup>24</sup>, although most use different card schemes only for different card portfolios.<sup>25</sup>
- 5.17** Some issuers explained that they aimed to have scheme relationships with both Mastercard and Visa because this was the most effective way to negotiate deals and provide customers with the best services.
- 5.18** Two of these issuers explained that multi-homing with different card portfolios across multiple card schemes is valuable to issuers and can help reduce scheme and processing fees.<sup>26</sup> [REDACTED].<sup>27</sup> The other issuer, which issues both Visa and Mastercard cards for a single card portfolio, stated that it ‘issues both schemes so that we can leverage competition within our portfolio between the schemes to keep fees low’.<sup>28</sup>
- 5.19** Another issuer, which issues cards from more than one scheme on its corporate card portfolios, said that ‘some larger customers prefer to use one scheme to remain consistent with their global issuing requirements’. For this reason, the issuer offers these customers a choice of schemes.<sup>29</sup>
- 5.20** Another issuer which currently single-homes its card portfolio explained that, as schemes offer new products at different times, multi-homing could be advantageous, as it would allow the issuer to choose the best scheme on the basis of the latest innovation. Nevertheless, the issuer said it was unlikely to shift any of its retail debit card portfolio to a different scheme due to the operational impact and likelihood of differing consumer outcomes which such an approach would imply.<sup>30</sup>
- 5.21** Conversely, one issuer explained that single-homing reduces costs, because maintaining two card schemes requires more resources. Having only one scheme also simplifies the allocation of incentives from schemes to promotions and ensures one scheme does not sponsor the other schemes’ advertising campaign with the issuer.<sup>31</sup>
- 5.22** Another issuer explained that, while there are costs to multi-homing (for example, the issuer has to spend twice as much on understanding scheme bulletins and implementing changes), these costs are not sufficient to warrant a strategic change to single-homing.<sup>32</sup>

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24 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

25 This is the case for at least the following respondents: [REDACTED] (see Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED]).

26 Stakeholder responses to PSR information request dated 11 January 2023. [REDACTED].

27 Stakeholder response to PSR information request dated 11 January 2023. [REDACTED].

28 Stakeholder response to PSR information request dated 11 January 2023. [REDACTED].

29 Stakeholder response to PSR information request dated 11 January 2023. [REDACTED].

30 Stakeholder response to PSR information request dated 11 January 2023. [REDACTED].

31 Stakeholder response to PSR information request dated 11 January 2023. [REDACTED].

32 Stakeholder response to PSR information request dated 11 January 2023. [REDACTED].

## Dimensions of competition

**5.23** Several of the documents from Mastercard and Visa discuss the different dimensions of competition between card schemes on the issuing side. While price competition is a key aspect, the documents also highlight several non-pricing dimensions of competition. In this section we discuss the evidence on both price and non-price competition.

### Pricing

**5.24** Pricing is one of the main dimensions of competition for issuing contracts. In discussing the evidence related to price competition, we first define the measures used by Mastercard and Visa to assess the pricing terms offered to issuers. We then consider the size and structure of incentives to issuers, noting in particular how these have changed in the UK in recent years. Finally, we note that commercial interchange fees are also an important factor in competition for issuing contracts.

#### The metrics of pricing competition

**5.25** Mastercard and Visa typically offer issuers different types of incentives, which can vary from contract to contract. Contracts have different combinations of volume incentives, support for or reimbursement of marketing campaign costs, sign-on cash incentives, fee discounts and fee rebates. In this annex, we refer to the combined monetary value of all these incentives, discounts and rebates as *issuer incentives*.

**5.26** When discussing [§<], internal documents refer to [§<]. To interpret those documents correctly, it is therefore important to clarify what these different metrics are.<sup>33</sup>

**5.27** **The *net issuing revenue* is the gross fees paid by the issuer minus the incentives paid to the issuer.**

**5.28** The net issuing revenue can be expressed as an absolute value or in terms of basis points on the payment volume, in which case it may be referred to as *net issuing yield*.

**5.29** For example, an absolute net issuing revenue of £100 million means that over the contracted period the scheme operator would receive £100 million more from the issuer than it pays to the issuer in the form of incentives. An absolute net issuing revenue of –£100 million means that the scheme operator pays the issuer £100 million more than the amount the issuer pays in scheme and processing fees.

**5.30** Similarly, a *net issuing revenue* of 10 basis points means that for a £100 payment, the issuer's net payment to the scheme operator is £0.1 on average across the contract. A *net issuing revenue* of –10 basis points means that for a £100 payment, the scheme operator makes a net payment to the issuer of £0.1.

**5.31** When an issuer migrates from one card scheme to another, thus incurring migration costs, the deal's net issuing revenue can also be expressed excluding the incentives that the new scheme operator pays the issuer as a contribution to the costs of migrating to the new scheme.

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33 The terms are taken from [§<]; [§<].

- 5.32** An important consideration for a scheme when assessing the profitability of an issuing contract (in addition to the revenue from the issuer) is the *acquiring attributed revenue*. This is the net fee revenue the scheme expects to receive from card acquirers for payments made with cards covered by the specific issuing contract.
- 5.33** **The sum of the net issuing revenue and the acquiring attributed revenue makes up the net total revenue from a contract.**<sup>34</sup>
- 5.34** When expressed as basis points on the payment volume, net total volume may be referred to as *net revenue yield*.
- 5.35** An absolute net total revenue of £100 million means that the scheme operator would generate from the issuing and acquiring side £100 million more than the incentives paid to the issuer.<sup>35</sup> A net revenue yield of 10 basis points means that for a £100 payment, the scheme operator would generate from the issuing and acquiring sides an average net revenue of £0.1. A net total revenue of £0 – or 0 basis points – means that the scheme operator expects to make zero net revenue from the issuing and acquiring, with all the revenue paid to the issuer in the form of incentives.
- 5.36** Incentives paid to issuers can be expressed as a percentage of the revenue the scheme operator generates from the contract. The documents use two different measures: the *issuer incentive ratio* and the *incentive ratio*.
- 5.37** **The issuer incentive ratio is the financial support paid to the issuer divided by the gross fees charged to the issuer.**
- 5.38** For example, a 50% issuer incentive ratio means that an issuer receives financial support corresponding to half of the scheme and processing fees charged according to the scheme's fee manual. A 100% issuer incentive ratio means that an issuer would pay zero net scheme and processing fees. An issuer incentive ratio above 100% means that the financial support to the issuer is higher than the value of the scheme and processing fees it pays.<sup>36</sup>
- 5.39** The incentive ratio also considers the *acquiring attributed value*: the incentives paid to issuers as a percentage of the overall revenues that a scheme operator expects to generate from a contract.
- 5.40** **The incentive ratio is the issuer incentives divided by the sum of the gross issuer fees and the acquiring attributed revenue.**
- 5.41** For example, a 50% incentive ratio means that a scheme operator pays the issuer 50% of what it expects to receive from the issuer and acquirers for payments made using cards covered by the contract. A 100% incentive ratio would mean that the scheme operator expects to make zero net revenue from the contract, with all the revenue paid to the issuer in the form of incentives.

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34 In some documents, it is unclear whether revenues from foreign exchange spread are included.

35 As the acquiring attributed revenue is a net value, the net total revenue also excludes the incentives paid to acquirers on transactions involving the issuer.

36 The corresponding measure on the acquiring side is the acquiring incentive ratio. This is the financial support paid to the acquirer divided by the gross acquirer fees charged to the acquirer.



## Size and structure of the incentives

- 5.42** The size of the incentives is a key aspect of competition for issuing contracts. Mastercard internal documents indicate that, [REDACTED]. Visa internal documents indicate that, [REDACTED].
- 5.43** Visa’s documents show that, [REDACTED].<sup>37</sup>
- 5.44** Market overview documents on Visa’s relationship with issuers, dated December 2020 and October 2021, observe [REDACTED]<sup>38</sup> and state that [REDACTED].<sup>39</sup> One document notes that [REDACTED] stating that [REDACTED].<sup>40</sup>
- 5.45** We saw evidence that issuer incentive ratios varied [REDACTED]. A 2020 Mastercard internal document shows the issuer incentive ratio varied [REDACTED]. In one document, Mastercard separates its issuers into three groups – [REDACTED] – with the following change in *issuer incentive ratios* between 2017 and 2019:<sup>41</sup>
- [REDACTED]
  - [REDACTED]
  - [REDACTED]
- 5.46** We also saw some evidence that issuer incentive ratios varied [REDACTED]. Specifically, the issuer incentive ratios [REDACTED]. Mastercard’s ‘European competitive strategy’ document notes that Mastercard’s issuer incentive ratio [REDACTED] between 2017 and 2019, [REDACTED].<sup>42</sup>
- 5.47** [REDACTED]. A 2022 Mastercard document forecast for the UK and Ireland region indicates that Mastercard expected the average market issuer incentive ratio [REDACTED]. This implies a stable net revenue yield from 2022 to 2024, [REDACTED] basis points in 2026. The document states that Mastercard expects [REDACTED].<sup>43</sup>
- 5.48** The schemes can offer [REDACTED] issuer incentive ratios to issuers migrating from a competing scheme, with one-off support to compensate for the costs of migration. Mastercard’s internal documents show that among its largest contracts with a start date between 2019 and 2022, it offered [REDACTED].<sup>44</sup>
- 5.49** The difference in incentives between contracts [REDACTED] can be seen more directly in the cases where Mastercard [REDACTED]. An internal 2022 presentation discusses Mastercard’s response [REDACTED]. Mastercard proposed [REDACTED].<sup>45</sup>
- [REDACTED].<sup>46</sup>

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37 [REDACTED].

38 [REDACTED].

39 [REDACTED].

40 [REDACTED].

41 [REDACTED].

42 [REDACTED].

43 [REDACTED].

44 [REDACTED].

45 [REDACTED].

46 [REDACTED].

- [redacted].<sup>47</sup> [redacted].<sup>48</sup>

**5.50** [redacted], Mastercard offers [redacted].<sup>49</sup> Mastercard’s move to [redacted] is a consideration for Mastercard when competing with other schemes to win issuing contracts.

**5.51** Looking at net total revenue and net issuer revenue allows us to see how gross revenue is [redacted]. For example, as shown in Figure 1, the net issuing revenue for [redacted]; the total net revenue for this contract is [redacted].<sup>50</sup>

**Figure 1: [redacted]**

[redacted]

Source: [redacted].

**5.52** However, Mastercard documents show that even strategically important issuers do not always get what they ask for. A 2022 internal document shows Mastercard’s internal considerations on how to respond to [redacted] to renew an existing deal.<sup>51</sup> [redacted] strategically important for Mastercard because [redacted] and is an important customer for a Mastercard [redacted].<sup>52</sup> [redacted] requested an [redacted]. Mastercard’s [redacted]. This would result in a *net issuing revenue* of [redacted] and a *net total revenue* of [redacted].<sup>53</sup>

**5.53** The size of issuers’ incentives is not the only important pricing aspect: the structure of incentives also matters. A Visa training document discusses [redacted]:

- [redacted].
- [redacted].
- [redacted].
- [redacted].<sup>54</sup>

**5.54** In the executive summary of its response to a request for proposal, Visa discusses, [redacted].<sup>55</sup>

**5.55** Visa’s documents show that [redacted]. Documents on Visa’s relationships with multiple issuers [redacted].<sup>56</sup> For example, [redacted].<sup>57</sup>

**5.56** Mastercard’s documents indicate that [redacted] can be a competitive differential when competing for issuing contracts. A 2020 presentation on Mastercard Europe’s lost deals shows that for [redacted].<sup>58</sup> Similarly, for [redacted] ‘the reasons for selecting Visa were [redacted]’.<sup>59</sup>

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47 [redacted].

48 [redacted].

49 [redacted].

50 Total net revenue is [redacted]. [redacted].

51 [redacted].

52 [redacted].

53 [redacted].

54 [redacted].

55 [redacted].

56 [redacted].

57 [redacted].

58 [redacted].

59 [redacted].

## Commercial interchange fees

- 5.57** Price competition for commercial cards is not always limited to scheme and processing fees. Differences in interchange fees for commercial cards can play a role as higher interchange fees lead to higher revenues for card issuers.<sup>60</sup>
- 5.58** For example, a 2022 response to a request for proposal [X] states that Mastercard has [X].<sup>61</sup>
- 5.59** Visa’s documents indicate that [X].<sup>62</sup> According to a document that analyses the UK market and plan deal approaches, in 2019 Visa had a [X].<sup>63</sup> [X].<sup>64</sup> A recent document states that [X].<sup>65</sup>

## Non-price factors

- 5.60** [X] are not the only factor that issuers consider when choosing between card schemes. Among the many non-price factors that might affect issuers’ choice of scheme are open banking capabilities, the speed of the clearing system, data management and analytics, and wider innovation.
- 5.61** Issuers’ requests for proposals and Mastercard’s responses show a range of [X] factors.
- A 2022 request for proposal from [X] asked Mastercard to explain how it could help [X] business in each of nine listed [X] areas: [X].<sup>66</sup>
  - A 2022 response to a request for proposal [X] includes three areas where Mastercard offered [X] features:
    - Commitments [X], including a [X].<sup>67</sup>
    - [X].<sup>68</sup>
    - [X].<sup>69</sup>
- 5.62** Mastercard’s documents also mention [X] as attractive [X] factors.
- 5.63** The quality of [X] is noted as one factor that can impact Mastercard’s ability to win deals with issuers. A 2020 internal document [X] states that ‘Mastercard faces competitive pressures [X], from other card networks and alternative payment platforms’ including Visa and other payment systems.<sup>70</sup> It states that European issuers have a key interest in this to enhance customer experience.<sup>71</sup> Mastercard planned to [X] to allow issuers to [X].<sup>72</sup>

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60 For consumer cards, domestic interchange fees are capped and schemes do not compete on this aspect.

61 [X].

62 [X].

63 [X].

64 [X].

65 [X].

66 [X].

67 [X].

68 [X].

69 [X].

70 [X].

71 [X].

72 [X].

- 5.64** Another 2020 internal document indicates that Mastercard's loyalty teams work primarily [REDACTED].<sup>73</sup> Mastercard's assessment of other providers states that 'Visa provides similar benefits and insurances'.<sup>74</sup>
- 5.65** Finally, a third Mastercard 2020 internal document indicates there are [REDACTED] which are involved in the issuer's decision making, adding that this is something that 'carries a lot of weight' and is 'not to be underestimated'. These [REDACTED] criteria include [REDACTED].<sup>75</sup>
- 5.66** Visa's responses to requests for proposal also show a range of non-pricing factors. For example, a 2022 response to a request for proposal from [REDACTED] includes:
- [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]<sup>76</sup>
- 5.67** A 2017 Visa board document states that issuers saw [REDACTED].<sup>77</sup> However, other documents [REDACTED]. One document lists [REDACTED]:
- [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]<sup>78</sup>
- 5.68** The same document goes into further detail on what Visa sees as [REDACTED]:
- [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - [REDACTED]<sup>79</sup>
- 5.69** Other documents also indicate that non-card products can be a competitive differentiator between Visa and Mastercard. Visa's documents on feedback from card issuers indicate that non-card products [REDACTED].
- One document reports that [REDACTED],<sup>80</sup> which is likely to mean that [REDACTED].

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73 [REDACTED].

74 [REDACTED].

75 [REDACTED].

76 [REDACTED].

77 [REDACTED].

78 [REDACTED].

79 [REDACTED].

80 [REDACTED].

- An internal document analysing [redacted] states that [redacted]. According to the same document, [redacted].<sup>81</sup>
- A document discussing Visa’s approach to [redacted].<sup>82</sup>

**5.70** Wider innovation also appears to be an important aspect of competition between Visa and Mastercard. One 2022 document [redacted] notes that some banks [redacted].<sup>83</sup> Another document explains that [redacted].<sup>84</sup>

## Intensity of competition

**5.71** The intensity of competition for issuing contracts is affected by the bargaining power of issuers, which may vary depending on issuers’ characteristics. Mastercard’s and Visa’s internal documents discuss [redacted]. Barriers to migrating between schemes may also affect the intensity of competition. Finally, internal documents discuss [redacted]. They suggest that, [redacted].

## Issuer segmentation

**5.72** [redacted]. Evidence from internal documents indicates that, [redacted].

**5.73** Figure 2 shows [redacted].

### Figure 2: [redacted]

[redacted]

Source: [redacted].

**5.74** Figure 2 shows that [redacted]<sup>85</sup> [redacted].

**5.75** Visa’s documents suggest some of the reasons behind [redacted]:

- [redacted]. This is unsurprising given [redacted]. A strategy document states that [redacted].<sup>86</sup>
- [redacted]. A 2021 document notes that Visa should [redacted].<sup>87</sup> A Visa board document [redacted] explains that [redacted].<sup>88</sup>
- An internal document [redacted] indicates that it is [redacted]<sup>89</sup> – that is, [redacted]. The same document mentions [redacted] as examples of [redacted].<sup>90</sup> This is consistent with [redacted], as shown in Figure 2 above.

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81 [redacted].

82 [redacted].

83 [redacted].

84 [redacted].

85 BIN sponsors are payment solution providers that work by issuing BIN (Bank Identification Number) ranges to enable companies wishing to offer payment cards to their customers.

86 [redacted].

87 [redacted].

88 [redacted].

89 [redacted].

90 [redacted].

**5.76** Mastercard’s internal documents indicate that certain issuer segments [X]. A 2020 internal document identifies [X] as being higher-margin segments to target where Mastercard had a significant competitive edge.<sup>91</sup> Consistent with this assessment, another 2020 document states that Mastercard wished to implement [X].<sup>92</sup>

- The [X] segment is said to be ‘the most profitable’, [X]. The same document estimates that targeting competitor [X] of revenue for Mastercard.<sup>93</sup>
- [X] are indicated as an area for investment and an opportunity to [X].<sup>94</sup>

**5.77** Several documents indicate that Mastercard competes strongly with both Visa and American Express to [X]. Competition for [X] deals can lead to [X]. For example, a 2020 document showing the issuer incentive ratios offered by Mastercard to [X] issuers shows that the [X].<sup>95</sup>

**5.78** Mastercard’s internal documents also detail its strategy for winning [X] portfolio. A 2020 internal document indicates that Mastercard developed [X], noting: ‘winning RFP [request for proposal] is going [X]’. The document assesses Mastercard’s competitive strengths as its [X].<sup>96</sup> Another document lists [X]:

- [X]
- [X]
- [X]
- [X]<sup>97</sup>

**5.79** Mastercard’s proposed support for that deal includes incentives [X].<sup>98</sup> A similar internal document observes that [X].<sup>99</sup> A later internal document suggests Mastercard lost this bid [X].<sup>100</sup>

**5.80** A 2020 internal presentation shows that Mastercard had another opportunity to compete [X]. The document states that for switching (i.e. interbank processing) Mastercard [X]. The document notes that there is [X].<sup>101</sup>

**5.81** Mastercard’s documents indicate that [X].

- A 2021 presentation for an internal workshop on [X] states that when negotiating an issuing contract, Mastercard’s [X]. This is exemplified with [X]. The presentation notes that other [X] have suggested that they do not [X].<sup>102</sup>

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91 [X].  
92 [X].  
93 [X].  
94 [X].  
95 [X].  
96 [X].  
97 [X].  
98 [X].  
99 [X].  
100 [X].  
101 [X].  
102 [X].

- A 2022 document states that [X].<sup>103</sup>

**5.82** Finally, Mastercard's documents indicate that [X] may also have a strong bargaining position. For example, a 2021 internal document (focused on Mastercard's [X] model) states that its [X] and are important volume and revenue contributors to [X].<sup>104</sup> The document also states that Visa is [X].<sup>105</sup>

## Barriers to migrating between schemes

**5.83** Migrating between schemes is not unusual among issuers. All of the issuers that responded to our information request said that they had considered migrating between card schemes in the last five years.<sup>106</sup> Three issuers told us that they had made significant portfolio changes between Visa and Mastercard,<sup>107</sup> while four other issuers had moved a small and limited portfolio of cards from one scheme to another.<sup>108</sup>

**5.84** Despite issuers being open to migrating between card schemes, half the issuers outlined difficulties in doing so. One issuer explained that migrating was technically difficult as [X].<sup>109, 110</sup> Five further issuers mentioned other barriers to migrating between schemes, including technical and operational complexities, and the cost and risk of transitioning.<sup>111</sup>

**5.85** [X].

**5.86** For example, a Visa strategy document on [X] notes [X], although it also mentions [X].<sup>112</sup>

**5.87** Mastercard's documents indicate that [X] for schemes when negotiating with issuers [X].

- According to a 2020 presentation on Mastercard Europe's lost deals, Mastercard lost contracts because [X]. Among [X], the document indicates [X] issuers chose Visa over Mastercard because [X]. It also states that [X] did not choose Mastercard in the UK because [X].<sup>113</sup>
- A 2020 summary of interviews with issuers showed that Mastercard [X].<sup>114</sup> One interviewee said: [X].<sup>115</sup> Another issuer that stayed with Mastercard [X].<sup>116</sup> These interviews also suggest that the offer of financial compensation [X]. For another issuer, [X].<sup>117</sup>

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103 [X].

104 [X].

105 [X].

106 Stakeholder responses to PSR information request dated 11 January 2023. [X].

107 Stakeholder responses to PSR information request dated 11 January 2023. [X].

108 Stakeholder responses to PSR information request dated 11 January 2023. [X].

109 Stakeholder response to PSR information request dated 11 January 2023. [X].

110 Mastercard's internal documents show that, in the past, this was an issue for [X]. In particular, a document from 2020 notes that [X].

111 Stakeholder responses to PSR information request dated 11 January 2023. [X].

112 [X].

113 [X].

114 [X].

115 [X].

116 [X].

117 [X].

- 5.88** Documents also show Visa trying [REDACTED].<sup>118</sup> Further products [REDACTED] are also stated to [REDACTED].<sup>119</sup>
- 5.89** Despite the barriers to migrating between schemes, Visa's documents recognise that [REDACTED].
- [REDACTED]. Visa's documents indicate that [REDACTED].<sup>120</sup>
  - Reviewing [REDACTED], a document states that [REDACTED].<sup>121</sup>

## Mastercard's and Visa's strategies

- 5.90** Mastercard's documents provide useful information to assess the intensity of competition for issuers. Mastercard considers a [REDACTED]: a 2022 Mastercard review of the UK and Ireland region explains that [REDACTED] a healthy issuing market share is critical to driving acquiring revenue and services revenue.<sup>122</sup> Mastercard documents state it faces significant competitive pressure on the issuing side.
- 5.91** Mastercard's documents indicate that its strategy is [REDACTED]. A 2020 Mastercard document titled [REDACTED] outlines the 'five pillars' of its [REDACTED] initiatives to win against competition across Europe. The pillars are:<sup>123</sup>
- [REDACTED].<sup>124</sup>
  - [REDACTED].
  - [REDACTED],<sup>125</sup> [REDACTED].<sup>126</sup>
  - [REDACTED].<sup>127</sup> [REDACTED].<sup>128</sup>
  - [REDACTED].<sup>129</sup>
- 5.92** This 'five pillars' approach indicates that Mastercard faces competition, especially from Visa, both when trying to win new issuer deals and when defending existing ones.

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118 [REDACTED].

119 [REDACTED].

120 [REDACTED].

121 [REDACTED].

122 [REDACTED]

123 [REDACTED]

124 [REDACTED]

125 [REDACTED]

126 [REDACTED]

127 [REDACTED]

128 [REDACTED]

129 [REDACTED]



**5.93** Mastercard’s documents refer frequently to Visa [REDACTED].

- A 2020 European-level internal document assessed that [REDACTED].<sup>130</sup>
- Another 2020 internal document discussing the strategy [REDACTED].<sup>131</sup>
- A 2020 internal document on switch (i.e. interbank processing) also states that [REDACTED].<sup>132</sup>
- A 2021 internal document regarding a Mastercard divestment notes [REDACTED].<sup>133</sup>

**5.94** A 2020 European-level internal document shows that [REDACTED]. The objectives of Mastercard’s [REDACTED].<sup>134</sup> This document claims: [REDACTED].

**5.95** Mastercard presents a [REDACTED]. It also shows that Mastercard expects a [REDACTED].<sup>135</sup>

**Figure 3: [REDACTED]**

[REDACTED]

Source: [REDACTED].

**5.96** Mastercard did pursue this [REDACTED] strategy. A 2022 internal document focusing on the UK and Ireland region shows that Mastercard’s market share had [REDACTED].<sup>136</sup> A 2022 internal document shows that, in the same period, Mastercard experienced [REDACTED].<sup>137</sup>

**5.97** Mastercard appears to aim to [REDACTED]. A 2022 internal document states that between 2022 and 2026, Mastercard planned [REDACTED].<sup>138</sup> The same document argues for [REDACTED]. A 2022 internal document focusing on the UK and Ireland region shows that Mastercard hoped to further increase its market share between [REDACTED],<sup>139</sup> with Mastercard planning to establish a strategy to [REDACTED].<sup>140</sup> This document also states that winning market shares in the UK and Ireland would [REDACTED].<sup>141</sup>

**5.98** Visa’s documents show that [REDACTED]. Some documents indicate that [REDACTED]. For example, one document [REDACTED].<sup>142</sup> Another document notes that [REDACTED].<sup>143</sup> Discussing [REDACTED] document notes that [REDACTED].<sup>144</sup> This and other documents show that [REDACTED].<sup>145</sup>

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130 [REDACTED]

131 [REDACTED]

132 [REDACTED]

133 [REDACTED]

134 [REDACTED]

135 [REDACTED]

136 [REDACTED].

137 [REDACTED].

138 [REDACTED].

139 [REDACTED].

140 [REDACTED].

141 [REDACTED].

142 [REDACTED]. Visa’s documents indicate that [REDACTED].

143 [REDACTED].

144 [REDACTED].

145 [REDACTED].

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