

Stakeholder
roundtables on scheme
and processing fees:
summary

Introduction

In February 2023, we published two working papers, setting out our initial thinking on:

- the competitive constraints faced by the schemes in setting scheme and processing fees
- our initial approach to profitability analysis

We then held a series of roundtables with acquirers, issuers and merchants to discuss these working papers. This paper summarises what the roundtable participants said on the topics we discussed with them.

Participants' views recorded in this summary do not necessarily reflect those of all acquirers, issuers and merchants. But we consider that they usefully illustrate and explain the issues that our market review is considering.

Representatives from the following organisations attended the roundtables:

ABTA	Fiserv	PayPoint
AIB Merchant Services	FMPay	Square
Amazon	Global Payments Europe	Stripe Technology Europe Limited
Association of Convenience Stores	HSBC Bank Plc	Tesco
Barclaycard	John Lewis Partnership	Teya (formerly SaltPay)
Barclays Bank UK Plc	Kingfisher	Transport for London
Block	Marks & Spencer	Virgin Money
British Retail Consortium	Monovate	JP Morgan Wholesale Payments Europe Limited
Chase Paymentech Europe Limited	Nationwide Building Society	Worldpay/FIS
EVO Payments International GmbH	NatWest Group	
Finaro	Netflix	

Competitive constraints

1. We divided this paper into four themes and wished to hear views on each theme.

Theme 1: The intensity of competition and innovation in the payments ecosystem

2. Among the roundtable participants, four acquirers, two issuers and seven merchants expressed views on this theme.
3. Among those that expressed views, most said that innovation is happening but the situation is not ideal and has limitations. One merchant said innovation largely benefits issuers and there should be changes on the acquiring side. One acquirer noted that there is innovation in payments generally but there has been none in the card payment rails since cards have become dominant.
4. Acquirers and merchants also said that innovation is likely to increase consumers' use of cards, pointing out that newer payment methods such as Google Pay or Apple Pay are, in fact, linked to consumers' cards anyway. One merchant added that open banking makes up a small portion of retail sector payments compared to cards.
5. Some merchants pointed out it would be innovative to enable a switch between card rails and bank rails (that is, the behind-the-scenes infrastructure that allows a payment to happen). One merchant raised that there are really only two card schemes (Mastercard and Visa), and these are actually very similar to one another.
6. Participants discussed the possibility of steering customers towards alternative payment methods. Merchants pointed out that their own choice of processing method depends on the way their customers choose to pay.
7. Several merchants underlined that they have to take their lead from what their customers want, and must offer the customers' preferred ways to pay, including Mastercard and Visa payment cards (in other words, Mastercard and Visa are 'must-take' cards as far as merchants are concerned). Merchants all thought that it would be difficult to persuade customers to take up new payment methods.
8. One merchant noted that there would need to be a break in the dependency between payment choice and processing choice. Two participants (a merchant and an acquirer) suggested that consumers are indifferent about whether they are using Mastercard or Visa, provided they have a payment card. Of these two participants, the merchant stated that consumers, asked whether they agree with the fees being charged, generally didn't understand the fees enough to comment.
9. Two acquirers held the same views as the merchants and, like them, noted the must-take status of Mastercard and Visa. Acquirers are tied to one or both of these cards and so have no way of encouraging much competition from alternative payment rails, they said.
10. Issuers gave limited input on this theme. One noted that issuers can buy certain products from either the card schemes or third parties – for example, anti-fraud products.

Theme 2: Differences in the competitive dynamics on the issuing and acquiring sides

11. Two issuers, four acquirers and two merchants gave comments on this theme.
12. Participants discussed whether or not acquirers should be working with merchants to bring down the cost of payments. One merchant said that complaining to acquirers or card schemes about the costs of payments is not very effective. Acquirers will respond that when they pass on to a merchant the interchange and other scheme fees for a transaction, they are just following 'interchange fee plus plus' (IC++) rules. Meanwhile, even if asked to help with the cost of payments, card schemes will not do much. Another merchant agreed that card schemes have historically hidden behind acquirers. This merchant added that three-way conversations involving merchants, acquirers and the schemes have only begun recently.
13. One acquirer said that some of its staff are dedicated to managing relationships with merchants and understanding why fees change. Larger acquirers, with better equipped teams, can bear the cost of this kind of work more easily, the acquirer said.
14. However, a second acquirer disagreed with this, pointing out that a larger acquirer must deal with a greater number of fees. This second acquirer also explained that acquirers must still understand the fees even when they pass them on to merchants automatically under IC++ pricing. The responsibility for understanding the charges has shifted from the card schemes to the acquirers.
15. A third acquirer said that acquirers with a higher proportion of merchants charged via blended contracts would be more affected by fee increases.
16. One issuer said that the schemes take advantage of their market power to increase prices as far as they can.
17. This issuer also noted fundamental differences between the issuing and acquiring sides of the market. Acquirers must take both Mastercard and Visa. Issuers do not have to issue both cards and can switch between the two card schemes (though it is costly).
18. One merchant commented that the schemes, particularly Visa, seem to be moving away from providing incentives to merchants.

Theme 3: The impact of transparency on competitive pressure at all levels of the value chain

19. Three issuers, four acquirers and six merchants made comments on this theme.
20. Overall, merchants felt that while transparency is important, so is simplicity. They noted that it wouldn't necessarily help if the card schemes had to list every fee, because merchants don't know what each fee means or why it is charged.
21. Merchants all thought that understanding the fees takes a lot of work and merchants only have finite resources. They have to pay their invoices and it is not up to them to decide what could be cut from these.
22. All the acquirers also said that attempting to understand scheme and processing fees takes a lot of resources, time and effort, and so does monitoring any changes and communicating these to merchants.
23. One acquirer suggested a few measures that could encourage card schemes to be clearer and improve their communication, such as publishing timelines for fee changes, and providing greater accessibility for merchants. A second acquirer pointed out that currently it is difficult to forecast fee increases, and so acquirers can do little to counteract them.
24. Two issuers said that on the issuing side, the cost and logistics of switching card schemes was a barrier to competition.
25. Two issuers said that fee manuals are lengthy and are hard to understand. One of them felt this may impact competition. However, the two reported having ways to deal with this complexity, such as outsourcing, using an in-house team of experts, or choosing to examine fees only at a high level.
26. One issuer suggested that some merchants (such as large supermarket chains) may have a highly sophisticated understanding of card services and may even have more influence than issuers over the decisions that card schemes make. This issuer also noted that small merchants, who would probably struggle to understand fee manuals, can leave acquirers to manage this complexity for them.
27. This issuer said that, in theory, fee manuals could be simplified. Another agreed but pointed out card schemes may use fee complexity to make it harder for clients to optimise their fees.

Theme 4: The 'must-take' status of Mastercard and Visa-branded cards (in many retail environments)

- 28.** Three acquirers and six merchants gave comments on this theme. Issuers did not comment on it.
- 29.** Merchants and acquirers all said they consider Mastercard and Visa to have must-take status; in other words, they must offer both schemes because consumers want to use their cards.
- 30.** One merchant urged that a competitive market should not allow schemes to exploit this must-take status.
- 31.** As for alternative payment methods, some merchants said they would not lose much business if they refused to take cash, but they would if they refused to take cards. Indeed, some merchants said one of their main reasons for continuing to accept cash payments is moral responsibility. Following the COVID-19 pandemic, many merchants switched to card-only (though this varies across the country and by sector).
- 32.** One acquirer noted that surcharging rules prevent merchants from charging extra for accepting card payments, leaving them with very limited scope to steer consumers towards other payment options. On top of that, retailers are currently in intense competition, and consumers can switch between e-commerce providers with ease. Acquirers and merchants thought that if a merchant tries to steer a customer towards other payment methods, it creates friction and makes them more likely to lose the customer.
- 33.** The same acquirer noted that so far there has not been limited adoption of alternative payment methods at point of sale, particularly among smaller merchants. Even if an alternative payment method existed, multiple payment options do not necessarily mean that competition would improve, the acquirer said. Merchants have to accept what consumers demand and so cards could still have must-take status.
- 34.** This acquirer added that more attention should be given to why merchants accept some payment methods and not others. Another commented that it would be hard for an alternative payment method to compete with the ease and speed of card payments.
- 35.** A third acquirer said that regulators have a role to play on this topic, using the United Arab Emirates (UAE) as an example. The acquirer explained that, in the UAE, regulators largely facilitated and drove the transition from cash to card during the COVID-19 pandemic.

Approach to profitability

There was less discussion on this more technical topic and stakeholders gave fewer responses. Here we summarise these answers to two questions we asked them.

Comparators to use as benchmarks

Question 1

- Can you suggest any comparator companies that we should use as benchmarks for Mastercard and Visa, including the characteristics that make them suitable candidates, particularly the business risks they face?

1. One acquirer noted that the ratio between risk and reward is a key difference between card schemes and other financial services firms. A second acquirer pointed out that Mastercard and Visa are publicly listed companies and urged that, rather than relying on benchmarking, we should ask them for the information we want.
2. An issuer stated that it is difficult to highlight similar entities to Mastercard and Visa because of their large coverage in the UK card market. The issuer said we could consider American Express as a similar company, except that it does not have the same card coverage as Mastercard and Visa and does not issue debit cards.
3. A merchant suggested that some processing companies also pass on costs to merchants and consumers and so could be compared to Mastercard and Visa. Alternatively, if open banking has a model, we could use that for the sake of comparison.

Proposed approach

Question 2

- We think a margin-based approach to calculating profitability is the appropriate approach for this market review. Do you agree? Why?

4. There were no comments from issuers or merchants on this question.
5. One acquirer provided input and supported the margin-based approach. It noted that the key factor supporting this approach is the schemes' status as very asset-light companies (for their size) and the significance of their brand for the adoption and maintenance of the payment system. This acquirer noted that a margin-based approach is the only sensible approach.

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