Payment Systems Regulator

Market review of card scheme and processing fees

Stakeholder submissions to:

MR22/1.9: Market review of card scheme and processing fees interim report

April 2025

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Names of individuals and information that may indirectly identify individuals have been redacted. The places in this document where confidential material has been redacted are marked with [✂].

Dojo

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Response to Interim Report Market Review of Scheme and Processing Fees – May 2024 Publication

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[redacted]

Introduction

[redacted]

3. In this response we have focused our views on the questions about market review.

4. We welcome the opportunity to respond to the interim report of the market study.

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Questions for Stakeholders

Analysing competition in a four-party card scheme

***Question 1**. Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?*

Response: The description of facts and considerations in Chapter 3 is comprehensive and provides a solid foundation for the market review. However, including additional factors such as technological innovations, the regulatory environment, international comparisons, evolving consumer trends, and the broader economic impact would enhance the analysis. These factors can offer a more nuanced understanding of the market dynamics and help in formulating more effective remedies.

Chapter 3 of the report lays out the context for the market review, including an overview of the card payment ecosystem, key players, and their roles. It discusses the dynamics of the acquiring market, competitive constraints, consumer behaviour, and the implications of card scheme practices on merchants and consumers. The chapter aims to provide a comprehensive background for the subsequent analysis and findings.

Technological Innovations, detailed analysis of regulatory environment, International Comparisons, Consumer Trends and Preferences & Economic Impact are few other factors that should be considered as relevant context for market review.

Competitive constraints on the acquiring side

***Question 2**. Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side?*

Response: Regarding the analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side, the document outlines several key points and evidence supporting this conclusion:

- **Lack of Alternatives for Core Services**: Acquirers have limited ability to source core processing services from providers other than Mastercard and Visa. This is because acquirers cannot unilaterally choose an alternative processor without an agreement with the issuers, who have no incentive to migrate due to their current agreements with Mastercard and Visa. This has resulted in no alternative processors operating in the UK.
- **Limited Competitive Constraints from Merchants**: Most merchants cannot decline to accept either Mastercard or Visa without significant impact on their business, which limits their ability to exert competitive pressure. Moreover, the small number of alternatives suitable for spontaneous consumer payments further constrains merchants' ability to steer consumers towards other payment methods.
- **One-Stop Shop Advantage**: Mastercard and Visa's ability to provide a one-stop solution for both core and optional services strengthens their position compared to alternative providers, who might only offer optional services. This further reduces the competitive constraints they face.
- **Profitability Analysis**: The report indicates that Mastercard and Visa have EBIT margins significantly higher than companies operating in competitive markets, suggesting a lack of

effective competition. This profitability evidence supports the provisional finding that Mastercard and Visa's margins are higher than would be expected in competitive markets.

- **Pass-Through to Merchants and Consumers**: Increases in scheme and processing fees are typically passed through to merchants and, over time, to consumers. This pass-through mechanism highlights the lack of competitive constraints, as fee increases by Mastercard and Visa directly affect end consumers through higher prices.

[redacted]

***Question 3**. Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process?*

Response: The PSR finds that the ability of consumer steering to constrain Mastercard and Visa is limited due to several factors:

1. **Few Effective Alternatives**: There are only a small number of effective alternative payment methods to Mastercard and Visa, limiting merchants' ability to steer consumers towards other options.
2. **Increased Friction**: Steering consumers towards alternative payment methods can introduce friction into the payment process, leading to reduced sales conversion and increased costs for merchants.
3. **Merchant Incentives**: The incentives for merchants to steer consumers away from Mastercard and Visa are limited, as the potential losses in sales and customer satisfaction outweigh the benefits of reduced fees.

[redacted]

In conclusion, the PSR's analysis appears robust and well-supported by evidence, though stakeholders might suggest considering additional factors such as technological innovations and global market trends to provide a more comprehensive context for the market review.

***Question 4**. Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees?*

Response: The analysis and provisional finding in the interim report conclude that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees. Several key points support this conclusion:

1. **Limited Impact of Wallet Transactions**: The report indicates that the volume of transactions processed through e-money wallets is a small proportion of Mastercard's and Visa's card transactions.

2. **Risk of Moving Away from Cards is Low**: It is highlighted that pass-through wallets, which currently only support cards, show a very low risk of moving away from cards in the short to medium term. This is based on evidence received and consistent with Mastercard's submissions and internal documents.

3. **Constraints on Wallets**: The potential constraint imposed by e-money wallets and BNPL (Buy Now Pay Later) solutions on Mastercard's and Visa's scheme and processing fees is limited by several factors:
- The transactions processed through the wallets are a small proportion of the total card transactions by Mastercard and Visa.
- Wallet operators' unwillingness or contractual limitations to steer consumers away from cards further restricts the competitive constraint they can impose.

4. **Steering Consumers is Unlikely**: The report mentions that even if merchants try to steer customers towards alternative payment methods like digital wallets or BNPL solutions in response to fee increases, this ability is severely constrained. This constraint is due to the limited number of suitable alternatives for spontaneous consumer payments and the costs associated with steering, such as increased friction in the payment process and potential reduction in sales conversion.

These points collectively support the provisional finding that decisions by operators of wallets are unlikely to impose an effective competitive constraint on the fees set by Mastercard and Visa.

Question 5*. Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK?*

Response: Regarding the analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) no alternative suppliers of core processing services currently operate in the UK:

The document outlines several key points that support these findings:

1. **Lack of Effective Alternatives for Acquirers**:
- Acquirers in the UK theoretically have the option to source core processing services from providers other than Mastercard and Visa. However, in practice, their ability to do so is highly constrained. This is because acquirers cannot unilaterally choose an alternative processor without agreement from issuers, who have little incentive to switch processors due to existing contract structures and potential increased costs and complexity.
- The weak bargaining position of acquirers with respect to core processing fees is highlighted by the rarity of negotiated discounts or rebates on these fees. Only acquirers that also operate as issuers, and thus can process 'on-us' transactions, seem to be in a stronger negotiating position.

2. **Barriers to Entry for New Processors**:
- The two-sided nature of processing services, requiring both acquirers and issuers to agree on the use of a processor, creates significant barriers to entry for third-party processors. Internal documents from Mastercard and Visa reveal that the largest issuers often receive core processing services free of charge or at highly discounted rates, which discourages them from considering alternative processors.
- As a result of these barriers and the lack of incentive for issuers to migrate to alternative processors, no alternative providers currently operate in the UK, and there is no evidence of plans for such entry.

3. **Provisional Conclusions**:

- The report concludes that Mastercard and Visa do not face effective competitive constraints in the provision of core processing services on the acquiring side in the UK. This conclusion is drawn from the combination of limited alternatives for acquirers, significant barriers to entry for new processors, and the lack of existing alternative providers.

[redacted]

***Question 6**. Do you have any views on our analysis and provisional findings that: (i) acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services; (ii) acquirers and merchants face significant implications if they do not use these optional services; and (iii) acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services.*

Response: Regarding the analysis and provisional findings mentioned above, the document provides substantial insight:

1. **Limited Alternatives for Optional Services**:
   - The report identifies that the availability of effective alternatives to Mastercard and Visa's optional services is likely to vary, but generally, alternatives appear to be limited for some of these services. The convenience of sourcing optional services from Mastercard and Visa, given their ability to provide a one-stop shop solution, places them in a stronger position compared to alternative providers.

2. **Significant Implications if Services Are Not Used**:
   - Some merchants face significant implications if they do not use certain optional services provided by Mastercard and Visa. This is particularly true for services that are important for specific sectors or business models. The lack of viable alternatives means that opting out of these services could be detrimental to their operations.

3. **Limited Countervailing Buyer Power**:
   - Acquirers and merchants generally possess limited countervailing buyer power. This limitation is evident from the difficulty they face in negotiating prices for optional services, compounded by the lack of effective alternatives. Although some acquirers may secure discounts, rebates, or delays to fee increases, these instances do not sufficiently mitigate the overall lack of competitive pressure on Mastercard and Visa.

[redacted] This dominance limits competitive pressures, resulting in a market where acquirers and merchants have few alternatives and limited negotiating power.

***Question 7**. Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services.*

Response: ### Analysis of Competitive Constraints on Mastercard and Visa in the Supply of Optional Services

Based on the provisional findings from the interim report on market review of scheme and processing fees, here are some considerations regarding potential competitive constraints on Mastercard and Visa in the supply of optional services:

1. **Limited Alternatives for Acquirers and Merchants**:
   - Acquirers and merchants often have limited alternatives for the optional services provided by Mastercard and Visa. This limited availability can significantly affect their negotiating power, leading to a situation where Mastercard and Visa face limited competitive constraints.

2. **Varied Competitive Constraints Across Optional Services**:
   - The competitive constraints that Mastercard and Visa face are not uniform across all optional services. Some services have more available alternatives, while others do not. For instance, services like Mastercard's Dynamic Currency Matching and Visa's SMS Raw Data and Reports show evidence of ineffective competitive constraints due to lack of viable alternatives.

3. **Integration with Core Services**:
   - Mastercard and Visa benefit from offering a one-stop solution that integrates core and optional services. This convenience makes it challenging for acquirers to switch to alternative providers, thus reducing the competitive pressure on Mastercard and Visa. The integration of these services creates a strong incentive for acquirers to stick with the same provider for both core and optional services.

4. **Consumer Steering and Friction**:
   - The report also identifies that consumer steering is limited by the small number of effective alternatives and the increased friction it could generate in the payment process. This further reduces the competitive constraints on Mastercard and Visa, allowing them to set higher prices for their optional services without facing significant pushback from the market.

5. **Potential Overlooked Constraints**:
   - While the report comprehensively assesses many aspects, there could be other competitive constraints not fully considered. For example, emerging technologies or innovative payment solutions that might not be widespread yet could potentially serve as future competitive constraints. Additionally, regulatory changes or shifts in market dynamics might introduce new competitive pressures that are not currently significant.

6. **Provisional Findings on Competitive Constraints**:
   - The provisional findings suggest that Mastercard and Visa do not face effective competitive constraints for many of their optional services. The absence of strong alternatives and limited countervailing power of acquirers and merchants are central to these findings. However, it's acknowledged that some optional services do exhibit varying degrees of competitive constraints, indicating that the situation is not entirely uniform.

In summary, while the report highlights several factors contributing to the limited competitive constraints on Mastercard and Visa for optional services, it also opens the door for further investigation into additional competitive pressures that might not have been fully explored. These could include new market entrants, regulatory interventions, or shifts in consumer behaviour that might alter the competitive landscape in the future.

Question 8*. Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the* *alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services).*

Response:
Based on the analysis in Annex 4, several points can be made regarding the alternatives to optional services suggested by Mastercard and Visa:

1. **Evaluation of Alternatives**:
   - The Payment Systems Regulator (PSR) has analyzed the availability of competitive constraints for various optional services provided by Mastercard and Visa. The assessment shows that the degree of competitive constraints varies across different services.
   - For some services, the evidence suggests there are viable alternatives. For example, some acquirers mentioned third-party or self-supplied options for certain reporting services

2. **Categories of Optional Services**:
   - The PSR categorizes optional services into three groups based on the availability of alternatives and the countervailing power of acquirers.
     - *Services where the merchant decides*: Alternatives might exist, but acquirers might have limited visibility on them, and merchants may face significant implications if they do not use these services. [redacted]
     - *Services where the acquirer decides*: The evidence is mixed. For services like Mastercard's Mastercom and Visa's TC33 Clearing and Settlement Advice, some acquirers indicated possible alternatives, but there is also evidence of price changes by Visa, suggesting potential ineffective competitive constraints.
     - *Highly dependent services*: Services such as Mastercard's Dynamic Currency Matching seem to have limited competitive constraints due to the lack of effective alternatives and the strong position of Mastercard and Visa.

3. **Convenience and Relationship**:
   - Sourcing optional services from Mastercard and Visa can be more convenient for acquirers due to existing commercial relationships. This convenience factor can reduce the effectiveness of potential competitive alternatives.

Considerations for Suitability and Competition

- Suitability for All or Some Purposes:
  - Alternatives suggested by Mastercard and Visa might not be suitable for all use cases. The suitability often depends on the specific needs of the merchants and acquirers. For example, certain reporting and authentication services might have limited effective substitutes that can meet the specific requirements of different acquirers or merchants.

- Extent of Competition:
  - The degree to which these alternatives compete with Mastercard and Visa varies. For some services, there might be viable third-party or self-supplied options, but for others, particularly where the service is deeply integrated into the payment process, the competitive pressure is significantly weaker.

In summary, while there are some alternatives to the optional services provided by Mastercard and Visa, their effectiveness as competitive constraints varies significantly. The convenience of sourcing these services from a single provider with whom acquirers already have a commercial relationship, combined with the specific requirements of different services, often limits the competitive pressure on Mastercard and Visa.

Question 9. *Do you have any views on the optional services that we have not focussed on in our analysis (in particular those presented in Annex A to Annex 4)? If yes, please explain what these additional optional services are and what competition concerns you have around the supply of these services.*

Response: The document provides a thorough analysis of optional services offered by Mastercard and Visa, especially focusing on those deemed particularly important to acquirers and merchants. However, the document indicates there are additional optional services not fully analysed, as listed in Annex A to Annex 4.

Consideration of Additional Optional Services

1. Additional Services Identified: The document acknowledges that beyond the initially analyzed services, there are five unique additional Mastercard optional services and 14 unique additional Visa optional services identified through further investigation (Section 81 Notices).

2. Classification and Comparison: The classification and comparison of these services are noted to be complex. Some services might be similar across the schemes but classified differently, making direct comparisons challenging. For example, some reporting services might be equivalent but not clearly identified as such in the lists provided by Mastercard and Visa.

3. Revenue Generation and Usage: The analysis prioritizes services based on revenue generation and their importance to acquirers and merchants. However, there might be other services generating significant revenue or being critical for certain acquirers and merchants that were not given as much focus.

Competition Concerns

1. Lack of Effective Alternatives: The document highlights that alternatives to the optional services provided by Mastercard and Visa are limited. [redacted]

2. Limited Bargaining Power: Acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services. This limitation results in a less competitive environment, allowing Mastercard and Visa to maintain higher prices for their optional services.

3. Potential Overlooked Services: There may be other optional services not fully analysed or considered that could also impact the competitive landscape. These services might provide essential functionalities that acquirers and merchants cannot easily substitute or forego [redacted]

Recommendations

- Broader Analysis of Additional Services: Conduct a more detailed analysis of the additional optional services identified in Annex A to Annex 4. Understanding the competitive impact and necessity of these services for acquirers and merchants is crucial.

- Consideration of Service Equivalencies: Ensure a clear understanding and comparison of equivalent services offered by Mastercard and Visa to identify any gaps in competition analysis.

- Assessment of Impact on Smaller Players: Pay particular attention to how smaller acquirers and merchants are affected by the availability and pricing of these optional services, as they might have even less bargaining power compared to larger entities.

In summary, while the document has made significant strides in analysing key optional services, there is a need to expand the focus to include additional services identified and understand their impact on market competition more comprehensively.

[redacted]

[redacted]

Market Outcomes

Question 11*. Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years?*

Response: The interim report highlights that the revenue generated from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both Mastercard and Visa in recent years. Here are the key points and views on this analysis and provisional finding:

Key Points from the Report

1. **Revenue Distribution**:
    - The analysis indicates that both Mastercard and Visa derive a significant portion of their net scheme and processing fee revenue from the acquiring side. This trend has been consistent in recent years.
2. **Market Dynamics**:
    - The acquiring side, which involves fees paid by acquirers (entities that process credit or debit card payments on behalf of merchants), forms a substantial part of the business model for both card schemes. This contrasts with the issuing side, where fees are collected from issuers (banks or financial institutions that provide cards to consumers).
3. **Implications for Competition**:
    - The heavy reliance on revenue from the acquiring side suggests that Mastercard and Visa have considerable pricing power in this segment. This pricing power could be due to the limited competitive constraints and the essential nature of their services for acquirers and merchants.

Views on the Analysis and Provisional Finding

1. **Comprehensive and Data-Driven**:
    - The report's analysis appears thorough, supported by detailed data showing the distribution of revenue streams for both Mastercard and Visa. This helps in understanding the financial incentives and strategies of these card schemes.
2. **Indicative of Market Power**:

- The finding that a large majority of revenue comes from the acquiring side underscores the market power that Mastercard and Visa hold over acquirers. This can lead to higher costs for merchants and, ultimately, consumers, due to the pass-through of fees.

3. **Potential for Regulatory Scrutiny**:
    - Given the substantial revenue derived from the acquiring side, this area might warrant closer regulatory scrutiny. Ensuring that fees are fair and competitive is crucial for maintaining a balanced payment ecosystem.
4. **Need for Competitive Alternatives**:
    - The report suggests a need to explore and perhaps encourage the development of competitive alternatives to Mastercard and Visa on the acquiring side. This could help mitigate their pricing power and promote a more competitive market environment.

[redacted]

***Question 12**. Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years?*

Response: The provisional finding that average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms is supported by detailed analysis and data. This finding indicates significant market power held by these card schemes and underscores the need for competitive alternatives and potential regulatory measures to protect acquirers, merchants, and consumers from escalating costs.

1. **Thorough and Evidence-Based Analysis**:
    - The analysis presented in the report appears thorough and is backed by data showing the trend of increasing fees in real terms. This data-driven approach helps in understanding the financial impact on acquirers and, subsequently, on merchants and consumers.

[redacted]

3. **Consumer Impact**:
    - Higher scheme and processing fees can lead to increased costs for consumers, as merchants pass on the higher costs. This can reduce consumer welfare, making it an important issue for regulatory bodies to address.
4. **Need for Competitive Market Solutions**:
    - The findings underscore the need for promoting competitive alternatives to Mastercard and Visa. Encouraging more players in the market could help mitigate the fee increases and provide better pricing options for acquirers and merchants.
5. **Regulatory Intervention**:

- The substantial fee increases in real terms may warrant regulatory intervention to ensure a more competitive and fair payment ecosystem. Regulatory measures could include capping fees or fostering greater transparency in fee structures.

***Question 13**. Do you have any views on the extent to which changes in average fees levels in recent years have been accompanied by commensurate changes in:*
o The value to customers of the services provided by Mastercard and Visa?

o The quality of service provided by Mastercard and Visa?

o Innovation by Mastercard and Visa?

o Aspects of the transaction mix or characteristics of acquirers or merchants that we may not have fully captured in our econometric analysis (see Annex 7)?

Response: The provisional findings regarding the increase in average scheme and processing fees must be accompanied by a thorough analysis of whether these fee increases have been justified by improvements in value, service quality, and innovation by Mastercard and Visa. Additionally, the econometric analysis should fully capture the nuances of the transaction mix and characteristics to provide a comprehensive understanding of the fee structure dynamics.

1. **Correlation Between Fees and Value**:
    - The analysis should clearly establish whether the increased fees are justified by an increase in the value provided to customers. This includes tangible benefits such as enhanced security measures, better service reliability, and additional features that improve the payment experience.
2. **Service Quality Improvements**:
    - It is essential to determine if there has been a commensurate improvement in service quality with the fee increases. This can be measured through customer satisfaction surveys, service performance metrics, and the effectiveness of customer support.
3. **Innovation Metrics**:
    - The level of innovation by Mastercard and Visa should be scrutinized. Innovations such as contactless payments, digital wallets, and fraud prevention technologies should be highlighted if they have resulted from increased fees. Additionally, the pace of innovation compared to other regions or competitors should be considered.
4. **Comprehensive Econometric Analysis**:
    - The econometric analysis in Annex 7 needs to comprehensively capture the transaction mix and characteristics to ensure that all relevant factors influencing the fee structure are considered. This includes variations in transaction size, frequency, and the specific needs of different types of merchants.
5. **Potential Overlooked Factors**:
    - The analysis should consider if there are any overlooked factors that might have influenced fee changes. This includes external economic conditions, regulatory changes, or shifts in consumer behaviour that might affect transaction volumes and types.

***Question 14**. Do you have any views on our analysis and provisional findings in our profitability analysis? In particular:*

o Are there any factors that we have not covered in our report that may provide information on the relative profitability of Mastercard's and Visa's UK operations compared to their global and European operations?

o Are there any other comparators that have greater similarity to Mastercard's and Visa's UK operations than those that we have identified in our report?

Response: The profitability analysis provided in the report is thorough, but it should ensure a comprehensive range of profitability metrics and consider additional market-specific factors. Comparing UK operations with other similarly regulated and structured markets can provide more relevant insights. Exploring potential missing factors and alternative comparators will strengthen the analysis, ensuring a robust understanding of the relative profitability of Mastercard's and Visa's UK operations.

1. **Comprehensive Profitability Metrics**:
    - o The report's analysis should ensure it covers a wide range of profitability metrics, including operating margins, net profit margins, and return on investment. Comparing these metrics across different regions can provide insights into the efficiency and profitability of UK operations relative to other markets.
2. **Comparative Analysis**:
    - o It is essential to compare the profitability of Mastercard's and Visa's UK operations not only with their global and European averages but also with specific regions or countries that have similar market conditions. This can include other developed markets with comparable regulatory environments and payment infrastructures.
3. **Market-Specific Factors**:
    - o The analysis should consider market-specific factors that could influence profitability. These can include regulatory differences, competitive dynamics, consumer behavior, and technological adoption rates. Such factors can significantly impact the profitability of operations in different regions.
4. **Operational Efficiencies**:
    - o The report should examine whether operational efficiencies in the UK market contribute to higher or lower profitability compared to other regions. Factors such as economies of scale, cost structures, and local partnerships can influence operational efficiency and, consequently, profitability.
5. **Potential Missing Factors**:
    - o The report might need to explore additional factors that could provide a fuller picture of relative profitability. These could include:
        - **Regulatory Impact**: Differences in regulatory requirements and compliance costs between the UK, Europe, and other global regions.
        - **Market Maturity**: The stage of market development and maturity, which can affect revenue growth and profitability.
        - **Innovation and Investment**: Levels of investment in technology and innovation, which can drive competitive advantage and profitability.
6. **Alternative Comparators**:
    - o Identifying other comparators with greater similarity to the UK operations of Mastercard and Visa could enhance the analysis. Potential comparators might include:
        - **Developed Markets with Similar Regulatory Frameworks**: Countries like Canada, Australia, or Japan, which have similar regulatory and market environments.

    - **Regional Subsidiaries**: Comparing UK operations with other regional subsidiaries that operate under similar business models and market conditions.

Transparency and complexity of pricing information

***Question 15**. Do you have any views on our analysis and conclusion that issuers have a generally positive experience regarding the information they receive from Mastercard and Visa (such that they are able to access, assess and act on that information)?*

Response: The analysis and conclusion that issuers have a generally positive experience regarding the information they receive from Mastercard and Visa are well-supported by issuer feedback. The information is found to be accessible, actionable, and of high quality. Ensuring continuous improvement and possibly conducting a comparative analysis with other markets can provide further validation and insights. Additionally, identifying any potential areas for improvement can help in maintaining and enhancing the positive experience of issuers.

1. **Issuer Feedback**:
    - The positive feedback from issuers indicates that Mastercard and Visa have established effective communication and information-sharing practices. This is crucial for maintaining operational efficiency and regulatory compliance.
2. **Transparency and Clarity**:
    - The conclusion suggests that the information provided by Mastercard and Visa is transparent and clear. This transparency helps issuers to make informed decisions and enhances trust in the relationship between issuers and card schemes.
3. **Continuous Improvement**:
    - It would be beneficial to know if Mastercard and Visa have mechanisms in place for continuously improving the quality and relevance of the information provided. This could include regular updates, feedback loops with issuers, and enhancements based on issuer needs.
4. **Comparative Analysis**:
    - A comparative analysis with other regions or similar markets could provide additional context. Understanding whether issuers in other markets have similar positive experiences could validate the effectiveness of Mastercard's and Visa's information-sharing practices globally.
5. **Potential Areas for Improvement**:
    - While issuers have a generally positive experience, there might still be areas for improvement. These could include more detailed transaction data, enhanced real-time reporting, or better tools for data analysis. Identifying and addressing such areas can further strengthen the relationship between issuers and card schemes.

***Question 16**. Do you have any views on our analysis and assessment of the materiality of issues experienced by acquirers?*

Response: The analysis and assessment of the materiality of issues experienced by acquirers in the report are thorough and well-supported by quantitative and qualitative data. Ensuring comprehensiveness, considering severity and frequency, integrating continuous feedback, and incorporating a comparative perspective can further enhance the assessment. Addressing these issues effectively can help improve the operational efficiency and cost-effectiveness of acquirers, ultimately benefiting the broader payment ecosystem. To provide some more context:

1. **Comprehensiveness of Issue Identification**:
    - o The report appears to have identified a broad range of issues that acquirers face. Ensuring that all relevant issues are covered is crucial for an accurate materiality assessment.
2. **Impact on Operations and Costs**:
    - o The assessment effectively highlights how these issues affect acquirers' operations and costs. Understanding the operational disruptions and additional costs incurred due to these issues provides a clear picture of their materiality.
3. **Severity and Frequency**:
    - o Considering the severity and frequency of issues is essential for assessing their materiality. Issues that occur frequently and have severe impacts are more material compared to those that are infrequent or have minor impacts.
4. **Feedback Integration**:
    - o Incorporating direct feedback from acquirers enhances the validity of the assessment. This real-world input helps in understanding the practical challenges and prioritizing the issues that need addressing.
5. **Potential for Improvements**:
    - o While the assessment is comprehensive, it could benefit from a continuous feedback mechanism where acquirers can report new issues or changes in the severity of existing issues. This dynamic approach ensures that the assessment remains relevant and up to date.
6. **Comparative Perspective**:
    - o Comparing the issues experienced by acquirers in the UK with those in other markets can provide additional insights. Understanding whether these issues are unique to the UK or common across different regions can help in devising targeted solutions.

Question 17*. Do you have any views on our analysis and assessment of our analysis in respect of behavioural fees, and acquirers' ability to pass these fees on to merchants (as set out in Table 4)? If so, do you have any experience and/or views how widespread the issues identified are and their underlying cause or causes?*

Response:

1. **Comprehensive Identification of Fees**:
    - o The report's identification of different behavioural fees and their implications for acquirers is thorough. A clear understanding of these fees helps in assessing their financial impact and strategic importance.
2. **Quantitative Impact Assessment**:
    - o The quantitative analysis of the financial impact of these fees on acquirers is crucial. It provides a clear picture of how significant these fees are in terms of cost and the extent to which they affect the profitability of acquirers.
3. **Pass-Through Mechanisms**:
    - o Examining the mechanisms through which acquirers pass these fees onto merchants is important. This includes understanding the contractual arrangements, pricing strategies, and negotiation dynamics between acquirers and merchants.
4. **Severity and Frequency of Fees**:

- The assessment should consider both the severity and frequency of behavioural fees. Fees that are high in value but infrequent may have a different impact compared to low value but frequent fees.

5. **Merchant Impact**:
   - While the focus is on acquirers, understanding the downstream impact on merchants is also important. High behavioural fees that are passed on can affect merchants' operating costs and pricing strategies, ultimately influencing consumer prices.
6. **Underlying Causes**:
   - Identifying the underlying causes of behavioural fees, such as compliance requirements, risk management practices, or strategic pricing by Mastercard and Visa, can provide insights into potential areas for regulatory intervention or industry improvement.
7. **Widespread Issues**:
   - The report should assess how widespread these issues are across different types of acquirers and merchants. Variations in impact based on size, industry, and transaction volume can highlight specific areas where the burden is more significant.

[redacted] Key aspects include the identification of fees, quantitative impact assessment, and understanding pass-through mechanisms. Addressing the severity, frequency, and underlying causes of these fees, as well as their downstream impact on merchants, can provide a holistic view of the materiality and strategic importance of behavioural fees in the payment ecosystem.

Question 18. *Please provide your views on the prevalence (or otherwise) of acquirers having to purchase optional services to identify merchants incurring behavioural fees.*

Response: Views on the Prevalence

1. **High Prevalence**:
   - It is likely that the prevalence of acquirers having to purchase these optional services is high, given the complexity and variability of behavioural fees. Acquirers need robust tools to manage these fees and avoid unexpected costs.
2. **Dependence on Services**:
   - The dependence on optional services highlights a potential area of concern, as it suggests that acquirers may have limited alternatives. This dependency can create a competitive imbalance, [redacted]
3. **Impact on Smaller Acquirers**:
   - Smaller acquirers may be disproportionately affected by the need to purchase optional services. The cost burden may be more significant for them compared to larger acquirers, potentially affecting their competitiveness in the market.
4. **Potential for Improved Transparency**:
   - Enhancing transparency around behavioural fees and providing more straightforward, cost-effective tools for acquirers could reduce the need for optional services. This approach would help acquirers manage their merchant relationships more effectively and at a lower cost.

The reliance on optional services to identify merchants incurring behavioural fees is prevalent among acquirers. This reliance underscores the importance of these services but also raises concerns about cost and dependency. Addressing these issues through improved transparency and more accessible tools could benefit acquirers and merchants alike.

Question 19*. Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers or merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.*

Response: The document provides a detailed analysis of various issues concerning Mastercard and Visa's market practices, focusing heavily on price-related outcomes. However, non-price outcomes are also significant and should be considered for a comprehensive assessment.

Non-Price Outcomes and Potentially Omitted Issues

1. **Service Quality and Reliability**:
    - **Omitted Issue**: The assessment should consider the consistency and reliability of services provided by Mastercard and Visa. Instances of service outages, transaction delays, or processing errors can significantly impact issuers, acquirers, and merchants.
2. **Innovation and Technology Adoption**:
    - **Omitted Issue**: The rate and extent of innovation by Mastercard and Visa, including the adoption of new technologies and enhancements in payment security, are crucial non-price factors. The assessment should evaluate how these innovations benefit or disadvantage different market participants.
3. **Customer Support and Responsiveness**:
    - **Omitted Issue**: The quality of customer support provided to issuers, acquirers, and merchants, including the responsiveness and effectiveness of problem resolution, should be part of the evaluation. Poor customer service can lead to operational inefficiencies and increased costs.
4. **Regulatory Compliance and Risk Management**:
    - **Omitted Issue**: Compliance with regulatory standards and the robustness of risk management practices are important non-price outcomes. The assessment should examine how well Mastercard and Visa support their clients in meeting regulatory requirements and managing risks associated with payment processing.
5. **Transparency and Communication**:
    - **Omitted Issue**: The transparency of fee structures, contract terms, and changes in policies or services can affect trust and operational planning for issuers, acquirers, and merchants. The clarity and timeliness of communication from Mastercard and Visa should be scrutinized.
6. **Market Influence and Power Dynamics**:
    - **Omitted Issue**: The influence that Mastercard and Visa exert over market practices and the power dynamics between these schemes and smaller market participants should be considered. [redacted]

Recommendations for Comprehensive Assessment

1. **Include Service Quality Metrics**:
    - Incorporate evaluations of service reliability, instances of downtime, and transaction accuracy in the assessment.
2. **Assess Innovation Impact**:
    - Examine the pace of technological advancements and their adoption, focusing on how these innovations affect different market participants.
3. **Evaluate Customer Support Quality**:

    - Include feedback from issuers, acquirers, and merchants regarding the quality and effectiveness of customer support provided by Mastercard and Visa.
4. **Review Regulatory and Risk Management Support**:
    - Assess how well Mastercard and Visa assist their clients in adhering to regulatory standards and managing operational risks.
5. **Enhance Transparency Evaluation**:
    - Ensure that the transparency of fee structures, contractual terms, and communication practices are thoroughly evaluated.
6. **Analyze Market Influence and Competitive Practices**:
    - Investigate the power dynamics and market influence of Mastercard and Visa, including any practices that may hinder competition or affect market fairness.

While the document provides a thorough analysis of price-related outcomes, incorporating these non-price factors can lead to a more holistic understanding of the impact that Mastercard and Visa have on issuers, acquirers, and merchants. Addressing these omitted issues will help ensure a balanced and comprehensive market review.

Potential remedies and next steps

***Question 20**. What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?*

Response: Views on Remedies

1. **Prioritizing Transparency and Reporting**:
    - Enhancing transparency should be a top priority. Clear and detailed reporting on fees and services will enable acquirers and merchants to make informed decisions and manage costs more effectively.
2. **Regulatory Measures**:
    - Regulatory interventions may be necessary [redacted] Such measures could include price caps, mandatory consultation processes, and timely notification requirements.
3. **Stakeholder Engagement**:
    - Improving communication and involving stakeholders such as merchants, merchant associations, and consumer groups in consultative discussions can lead to more balanced and effective remedies.
4. **Addressing Optional Services**:
    - Ensuring that optional services are fairly priced and accessible can help mitigate the financial burden on acquirers and merchants. Transparency in the necessity and pricing of these services is crucial.

The proposed remedies in Chapter 8 are comprehensive and address many of the key issues identified in the market review. Prioritizing transparency and regulatory measures, while enhancing stakeholder engagement and addressing the cost of optional services, can create a more competitive and fair market environment. Implementing these remedies effectively will require ongoing monitoring and adjustment to ensure they meet the evolving needs of the market.

***Question 21**. Are any transitional provisions needed?*

Response: Transitional provisions are a necessary component of implementing significant regulatory changes, such as those proposed in the market review. These provisions can include phased implementation, temporary exemptions, support mechanisms, and continuous stakeholder engagement to ensure a smooth and effective transition. Prioritizing the design and implementation of these provisions will help minimize disruption and support compliance across the market.

Question 22*. Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?*

Response: Considering the potential benefits of enhanced transparency, market monitoring, informed decision-making, and the establishment of industry benchmarks, a regulatory financial report remedy appears to be a valuable proposal. However, it is essential to balance these benefits against the implementation and compliance costs. If the expected benefits outweigh the costs, this remedy could contribute significantly to a more transparent, competitive, and fair payment processing market. Reasons to consider a financial report remedy:

1. **Transparency and Accountability**:
    - Implementing a regulatory financial report remedy could significantly enhance transparency and accountability. Regular, detailed financial reports from Mastercard and Visa would allow regulators, acquirers, and merchants to better understand fee structures, cost distributions, and pricing strategies.
2. **Market Monitoring**:
    - Such a remedy would facilitate more effective market monitoring. Regulators would have access to critical data to assess compliance with regulatory standards, detect anti-competitive behaviour, and ensure fair pricing practices.
3. **Informed Decision-Making**:
    - Access to comprehensive financial reports would enable acquirers and merchants to make more informed decisions. They could better assess the value and cost-effectiveness of services provided by Mastercard and Visa, enhancing their negotiating power and operational planning.
4. **Benchmarking and Best Practices**:
    - Regular financial reporting could help establish benchmarks and best practices within the industry. By comparing financial metrics across different periods and market players, stakeholders can identify areas for improvement and innovation.
5. **Cost Implications**:
    - While the benefits are clear, the implementation of such a remedy would incur costs. Mastercard, Visa, and possibly acquirers and merchants would need to invest in systems and processes for data collection, analysis, and reporting. These costs should be weighed against the expected benefits.
6. **Implementation and Compliance**:
    - The success of this remedy would depend on clear guidelines and robust enforcement mechanisms. Regulators would need to define the scope, frequency, and format of the financial reports, and ensure compliance through regular audits and penalties for non-compliance.

Question 23*. Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?*

Response: Both the regulatory financial report remedy and the mandatory consultation and timely notification requirement remedies are valuable in promoting transparency, accountability, stakeholder engagement, and informed decision-making. Implementing these remedies would address several key issues in the payment ecosystem, contributing to a fairer and more competitive market.

Views on Mandatory Consultation and Timely Notification Requirement Remedies:

1. **Enhanced Stakeholder Engagement**:
    - Mandatory consultation would ensure that stakeholders, including merchants, acquirers, and consumer groups, have a say in major decisions affecting the payment ecosystem. This inclusive approach can lead to more balanced and effective policies.
2. **Transparency in Decision-Making**:
    - Timely notification requirements would ensure that all affected parties are informed of changes in a timely manner, reducing uncertainties and allowing for better preparation and adaptation to new policies or fee structures.
3. **Reduction of Information Asymmetry**:
    - These remedies can help in reducing information asymmetry between Mastercard/Visa and other market participants. When stakeholders are well-informed, they can make better business decisions and negotiate more effectively.
4. **Improved Regulatory Compliance**:
    - Requiring consultation and timely notifications can improve compliance with regulations, as Mastercard and Visa would need to adhere to structured processes for stakeholder engagement and communication.

Reasons for Considering: These remedies should be considered because they promote enhanced stakeholder engagement, transparency, and timely dissemination of information. They help in reducing information asymmetry and improving regulatory compliance, contributing to a more equitable and well-regulated market environment.

Question 24*. Do you have any views on ways in which other stakeholders, for example merchants, merchant associations and consumer groups could participate in consultative discussions with the card schemes?*

Response: Effective participation of stakeholders, including merchants, merchant associations, and consumer groups, in consultative discussions with card schemes is crucial for developing balanced and effective market policies. Ensuring inclusivity, structured and transparent processes, regular feedback mechanisms, and support for smaller stakeholders can enhance the quality and impact of these consultations. By integrating diverse perspectives, the regulatory framework can be more responsive to the needs of all market participants. Following are some reasons supporting the same:

1. **Inclusivity and Representation**:
    - It is essential to ensure that all relevant stakeholders are included in the consultation process. This can be achieved by actively reaching out to various groups and encouraging their participation.
2. **Structured and Transparent Processes**:
    - Implementing structured consultation processes that are transparent and well-communicated can enhance stakeholder trust and engagement. Clear guidelines on how the consultation will be conducted and how the input will be used are crucial.
3. **Regular Feedback Mechanisms**:
    - Establishing regular feedback mechanisms can help in continuously improving the consultation process. Stakeholders should have the opportunity to provide ongoing feedback and see how their input is being integrated into policy decisions.
4. **Support for Smaller Stakeholders**:

- Smaller stakeholders, such as independent merchants and consumer groups, may need additional support to participate effectively. Providing resources and capacity-building opportunities can help level the playing field and ensure their voices are heard.

Question 25*. Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?*

Response: Addressing complexity and transparency issues in fee structures is crucial for enabling acquirers and merchants to operate more efficiently. Providing detailed, timely, and accurate information on behavioural fees, along with a clear taxonomy for classifying fees, can significantly enhance the user experience and promote a fairer market environment. These remedies should be supported by robust regulatory oversight to ensure compliance and continuous improvement.

How proposed remedies can help acquirers and merchants:

1. **Importance of Transparency**:
    - Greater transparency in fee structures is essential. When acquirers and merchants have access to clear and detailed information about fees, they can better manage their costs and avoid unexpected charges. Transparency also promotes fairness and trust in the system.
2. **Benefits of a Classification System**:
    - A taxonomy for classifying fees can provide significant benefits. By categorizing fees into clear and distinct types, users can more easily navigate the fee structure. This simplification can lead to better financial planning and more effective negotiation with card schemes.
3. **Implementation of Information Systems**:
    - Introducing systems that provide real-time updates on fees can help users stay informed and responsive to changes. These systems should be user-friendly and integrated into existing platforms used by acquirers and merchants.
4. **Regulatory Oversight**:
    - Regulatory bodies should oversee the implementation of these transparency measures to ensure that card schemes comply with the new standards. Regular audits and feedback mechanisms can help maintain the effectiveness of these measures.

Question 26*. On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?*

Response: For many large market participants, the costs associated with implementing the proposed remedies could potentially be absorbed within their regular business activities. This is particularly true if the changes are incremental and align with existing compliance and operational frameworks. Smaller issuers, acquirers, and merchants might face more significant challenges in absorbing these costs. The need for additional resources, technology upgrades, and compliance efforts could be financially burdensome.

If the remedies lead to greater market transparency and reduced complexity, they could result in efficiency gains that offset the initial implementation costs. Better information flow and streamlined processes can lower operational costs over time. Regulatory support and guidance can help mitigate the cost impact on smaller participants. This could include phased implementation, financial assistance, or technical support to ensure that all market participants can comply without undue hardship.
The long-term benefits of a more transparent and efficient market could outweigh the initial costs. Improved market practices, reduced disputes, and better-informed decision-making can enhance overall market health and competitiveness.

While the implementation of proposed remedies will incur costs for various market participants, these costs could potentially be managed within the scope of regular business activities for larger entities. However, smaller participants may require additional support to absorb these costs. The long-term benefits of increased transparency, reduced complexity, and improved market efficiency should be considered when evaluating the overall impact of these remedies.

Question 27*. Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.*

Response: The payment card market is characterized by high entry barriers, network effects, and [redacted] few dominant players. These factors inherently limit the effectiveness of competition-boosting initiatives without regulatory intervention. Initiatives aimed at fostering competition often require substantial time to take effect. Market participants need time to adopt new practices, and new entrants need time to build sufficient scale and consumer trust. This slow pace of change may not address urgent market issues promptly.

Regulatory intervention can provide the necessary impetus for quicker and more effective change. Without regulatory backing, initiatives may lack the enforcement power needed to overcome resistance from entrenched market leaders. Historical examples where similar initiatives have failed to produce significant competition in comparable markets can be illustrative. These examples underscore the limitations of relying solely on market-driven solutions in highly concentrated markets.

Given the high entry barriers, network effects, and market power concentration in the payment card industry, it is unlikely that initiatives to boost competition will achieve the desired outcomes within a reasonable timeframe without regulatory intervention. The slow pace of change and the inherent limitations of market-driven solutions highlight the need for regulatory measures to ensure effective competition and protect consumer interests. Regulatory intervention can provide the necessary enforcement power and create a framework that promotes both innovation and fair competition.

Question 28*. Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.*

Response: To address complexity and transparency issues, it is crucial to implement more detailed and timely information on behavioural fees and a classification system for fees. Regarding the cost of implementing remedies, while some costs may be absorbed through regular activities, significant changes may require additional resources. The initiatives to boost competition and encourage surcharging or steering are unlikely to achieve the desired outcomes without regulatory intervention, underscoring the need for a regulatory framework to ensure effective implementation and impact.

Implementing the proposed remedies may incur costs related to system updates, training, and compliance. These costs should be evaluated against typical costs incurred during fee changes. The report also suggests that current initiatives to boost competition may not yield desired results promptly. Given the urgency of addressing competitive constraints, regulatory intervention is deemed necessary to ensure timely and effective outcomes.
While encouraging surcharging or steering can influence consumer choice and competitive dynamics, these measures alone are unlikely to suffice without regulatory oversight.

Regulatory intervention can provide a framework to ensure these practices are implemented effectively and consistently, thereby enhancing their impact.

Question 29*. Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.*

Response: Implementing a price cap or price control requires robust and reliable data from card schemes. The interim report highlights significant issues in data collection and accuracy, complicating the establishment of fair and effective price controls. Despite the potential benefits, the feasibility of implementing price controls is questionable given the current data limitations. Accurate data is crucial for setting appropriate caps and ensuring compliance, without which the effectiveness of such measures could be undermined. Instead of direct price controls, regulatory measures focusing on transparency, competition, and market conduct might be more practical and achievable. Enhancing data quality and reporting standards can also pave the way for future considerations of price regulation.

Initiatives to boost competition are unlikely to achieve desired outcomes without regulatory support due to the market power of dominant players and the slow pace of market-driven changes. These practices are unlikely to suffice on their own; regulatory intervention is necessary to address structural market issues and ensure effective implementation. Given current data issues, price controls are not feasible. Regulatory focus should be on improving data quality, transparency, and market conduct.

In summary, regulatory intervention appears necessary to complement existing initiatives, [redacted] and ensure timely and effective improvements in the payment processing market.

Question 30*. Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.*

Response: Time-limited remedies can provide significant benefits in terms of flexibility, adaptability, and effectiveness in regulatory interventions. A recommended initial review period of 2-3 years, followed by subsequent reviews every 2 years, allows for continuous assessment and adjustment based on market feedback and empirical evidence. This approach ensures that the regulatory framework remains responsive to the needs of the market while avoiding over-regulation.

An Initial review period of 2-3 years is recommended. This timeframe allows enough time for the market to adapt to the new measures and for regulators to gather sufficient data to assess their impact. After the initial period, subsequent reviews should be conducted every 2 years. This continuous evaluation cycle ensures that the regulatory measures remain relevant and effective in addressing the evolving market conditions. And finally, when implementing time-limited remedies, it is important to include transition periods to allow market participants to adjust to the new requirements. This can help mitigate any potential disruptions or compliance challenges.

Question 31. *Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.*

Response: Possible Remedies on Interim basis can be:

1. **Temporary Price Controls**: Introducing temporary price controls on certain high-impact fees could provide short-term relief while longer-term solutions are developed. These controls should be carefully monitored and adjusted based on market conditions and feedback.
2. **Stakeholder Engagement Programs**: Initiating programs to engage stakeholders, including acquirers, merchants, and consumer groups, can help gather real-time data and insights. This can inform more effective long-term remedies.
3. **Enhanced Transparency and Reporting**: Implementing interim measures to enhance transparency around fees and services can provide immediate relief. This could involve mandatory reporting requirements for Mastercard and Visa to disclose detailed fee structures and changes.
4. **Inclusion of stakeholders of all sizes**: Issuers and acquires of all sizes should be included in scheme decision making. They should be invited to participate in scheme working group/committees to provide thought leadership, clarity and input. This should not be limited to larger players.

Some long-term remedies are as follows:

1. **Comprehensive Fee Classification System**: Developing a comprehensive taxonomy for classifying fees into different categories can help service users better understand and compare costs. This system should be standardized across the industry and regularly updated.
2. **Regulatory Oversight and Audits**: Establishing regulatory oversight mechanisms to conduct regular audits of fee practices by Mastercard and Visa can ensure compliance and fairness. This can involve setting up an independent regulatory body with enforcement powers.

Both interim and long-term remedies are necessary to address the issues identified in the market review. Interim measures can provide immediate relief and set the stage for more comprehensive long-term solutions. Long-term remedies should focus on enhancing transparency, promoting competition, and ensuring regulatory oversight. By adopting a balanced and evidence-based approach, the proposed remedies can effectively address the problems while fostering a fair and competitive market environment.

Question 32. *Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?*

Response: In assessing possible remedies, it is important to consider following relevant customer benefits:

1. **Enhanced Competition**: Remedies should aim to boost competition among payment service providers, which can lead to lower fees, better services, and more innovation. This can directly benefit customers by providing them with more choices and better value for their money.

2. **Improved Transparency**: Increased transparency in fees and services can help customers make more informed decisions. This includes clear and detailed information on the costs associated with different payment methods and the services provided by card schemes.
3. **Reduced Costs**: Lower fees for payment processing and related services can reduce costs for merchants, who can then pass on these savings to consumers. This can make goods and services more affordable.
4. **Better Quality of Service**: Competitive pressure can lead to improvements in the quality of service provided by card schemes. This includes faster transaction processing, better customer support, and enhanced security features.
5. **Innovation and Technological Advancements**: Encouraging innovation in the payment services market can lead to the development of new technologies and solutions that improve the customer experience. This could include enhanced mobile payment options, better fraud prevention tools, and more efficient transaction processing.
6. **Greater Financial Inclusion**: Measures that reduce costs and improve access to payment services can help increase financial inclusion. This can benefit underserved communities by providing them with greater access to digital payment methods and financial services.
7. **Enhanced Security**: Improved security measures can protect customers from fraud and data breaches, increasing their confidence in using digital payment methods.

Ensuring that remedies lead to enhanced competition, improved transparency, reduced costs, better quality of service, innovation, financial inclusion, and enhanced security can create a more balanced and effective payment services market.

Question 33*. Is there anything else we have not considered, and you think we should consider?*

Response: When considering possible remedies, it is important to take into account the various customer benefits that can arise from effective regulation. These include price reductions, enhanced competition, transparency, improved service quality, and consumer protection. Additionally, the market review should address non-price outcomes, long-term impacts, the specific needs of SMEs, international comparisons, and technological advancements. By considering these factors, the regulatory framework can be more comprehensive and effective in addressing the identified issues.

Conclusion

We appreciate the efforts of the PSR in undertaking this market review and anticipate collaborating constructively with the PSR to influence and support any required measures.

[redacted]

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30 July 2024

Dear Sir/Madam

Re: PSR MR22/1.9: Market review of card scheme and processing fees interim report

The EMA represents non-bank issuers and acquirers, and our members include leading payments and e-commerce businesses providing online payments, card-based products, electronic marketplaces, open banking payments and more. The EMA has been operating for over 20 years and has a wealth of experience regarding the regulatory framework for electronic money and payments. A list of current EMA members is provided at the end of this document at ANNEX II.

We would be grateful for your consideration of our comments to the PSR's Interim Report, which are set out below in ANNEX I.

Yours faithfully

[redacted]

Electronic Money Association

ANNEX I – EMA Response

Question 1

• Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?

EMA response: The EMA, broadly, agrees with the findings identified in Chapter 3 of the Interim Report. In particular, we agree that card schemes (Visa, Mastercard) face different competitive forces on the issuing and the acquiring sides, as issuers generally have the option to switch between card schemes, whereas acquirers and merchants typically have to accept both Visa and Mastercard cards.

Nevertheless, we urge the PSR to continue considering both sides, as any measures introduced on one side may also impact the other.

Question 2

• Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side?

EMA response: In general, we agree with this provisional finding.

Question 3

• Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process?

EMA response: Generally, we agree that consumer steering towards alternative methods as a constraint on Visa and Mastercard is currently limited. However, we encourage the PSR to accelerate its work regarding account-to-account payments, particularly open banking Variable Repeat Payments (VRP), so that the market has the opportunity to develop viable alternatives to card payments.

Question 4

• Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees?

EMA response: In general, we agree with this provisional finding.

Question 5

• Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services;

and (ii) that no alternative suppliers of core processing services currently operate in the UK?

<u>EMA response:</u> We agree with the PSR's provisional finding that there are no viable alternative suppliers of core processing services (on the acquiring side) that could be used in the UK as an alternative to, and a potential constraint on, Visa/Mastercard processing services. Furthermore, there may be no business case for developing such alternative processing services in the UK, given the lack of domestic card schemes.

<u>Question 6 to Question 9</u>: omitted

<u>Question 10</u>

• Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to competitive constraints on the issuing side?

<u>EMA response</u>: Generally, we agree with this provisional finding. We would like to emphasise that the bargaining power and competition on the issuing side vary across issuers, depending on factors such as the size and composition of the issuer's card offering.

<u>Question 11</u>

• Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years?

<u>EMA response</u>: We are not able to comment on this specifically, due to the redaction of relevant figures in this Interim Report.

<u>Question 12</u>

• Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years?

<u>EMA response</u>: We are not able to comment on any specific increases, as the relevant figures are largely redacted in this Interim Report. However, we note this finding corresponds with the concerns raised by the industry participants to the PSR, as well as experience of the EMA members who are merchant acquirers, who have faced card scheme fee increases.

<u>Question 13 and 14</u>: omitted

<u>Question 15</u>

• Do you have any views on our analysis and conclusion that issuers have a generally positive experience regarding the information they receive from Mastercard and Visa (such that they are able to access, assess and act on that information)?

EMA response: We understand that issuers have mixed experiences regarding the information they receive from card schemes, also depending on the scheme. Some issuers report that the fees can be overly complex and the support received from the schemes is limited, especially regarding penalty fees and fines. As one example, fines were charged without prior notice or any indication of an issue, and only after being challenged by the issuer were they explained as a billing error.

Questions 16 to 19: omitted

Question 20

• What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?

EMA response: Overall, we are supportive of more transparency for acquirers to alleviate the issues they face, as outlined in the Interim Report. However, the PSR's proposed remedies in the Interim Report lack sufficient detail to assess their effectiveness, as well potential consequences, for a considered response.

We urge the PSR to provide more details on the implementation of the proposed remedies, and to consult with stakeholders once they have been shared.

We also urge the PSR to avoid introducing further complexity around pricing and other detailed provisions in the name of transparency, and to be mindful of the unintended consequences for the industry. In particular, developing UK-specific rules - depending on the remedies pursued - may incur significant costs, which would have to be recovered elsewhere within the ecosystem, and could introduce complexity for acquirers and issuers which operate both in the UK and the EEA. This may reduce the effectiveness of card payment methods and/or disadvantage UK cardholders, issuers, acquirers and merchants in the long term.

Question 21

• Are any transitional provisions needed?

EMA response: We consider some remedies the PSR is considering will be more complex, and require longer to decide on their appropriateness or method of implementation, than others.

Accordingly, it may be appropriate to prioritise the implementation of remedies that are broadly supported by stakeholders and easier to implement.

Question 22

• Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

EMA response: In general, we support a remedy that enables the PSR to gather sufficient, high quality data concerning UK operations of the card schemes, whether through RFR or other type of reporting. We consider it essential to ensure that any remedy the PSR proposes is high-quality data and evidence-driven.

Question 23

• Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

EMA response: Overall, we are unsure about the potential remedy that would require mandatory consultation with acquirers (or merchants) on all card scheme fee changes. The purpose, participation, and the potential impact of such a consultative process are unclear.

For example, for level playing field and equitable decision-making, the consultation process would need to involve a well-represented portion of acquirers, taking into account differences in their size, business models and need for particular card scheme services. This may impact their ability to participate in the consultation process and the extent to which they might be impacted by particular card scheme changes. It is not yet clear how such representative and equitable participation could be ensured, whilst keeping the process effective. Further, we are not certain whether such consultation process should be limited to acquirers or also include issuers, since, for example, card scheme changes on one side may have an impact on the other side. It is also unclear to what extent card schemes would be expected to be bound by feedback received as part of such consultation. Ultimately, we have some concerns about the potential unintended consequences of mandating card schemes, which are commercial organisations, to consult on their fee changes. If such a consultative process is implemented, its success will depend on ensuring the process is efficient and not overly-burdensome, with clear parameters set for the changes that require consultation, the stakeholders to be consulted and sufficient time for providing a response. Consulting with merchants directly is, in our view, unlikely to be appropriate due to the risk of adding to the complexity and confusion in the process.

On the other hand, we would support greater transparency regarding the reasons for card scheme fee changes. The PSR's proposed remedy of card schemes developing a pricing methodology for UK pricing decisions could help increase such transparency and could be helpful, from that perspective. We note that providing a pricing methodology is not unlike the approach taken by other payment system governing bodies, such as the European Payments Council in relation to the SEPA Payment Account Access (SPAA) scheme.

We are also generally in support of a remedy that requires a minimum notice period before implementation of new fees or changes to the existing card scheme fees, including significant revisions to previously notified fee changes. The notice should include sufficient information to enable acquirers to make informed decisions. We consider timely notification of changes as a reasonably expected part of service levels card schemes should provide. This notice period is essential for acquirers to prepare for, and adapt to, fee changes, which may involve implementing adjustments to avoid incurring certain fees (such as behavioural fees) or additional costs associated with late changes.

Question 24: omitted

Question 25

• Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

EMA response: Generally, we support increased transparency. However, we urge the PSR to ensure that increased transparency does not lead to increased complexity.

We believe that better information on behavioural fees - which allows acquirers to identify the behaviours and specific merchants that trigger such fees in a timely manner - would be beneficial to both merchants and acquirers. Consequently, schemes should provide all necessary data to identify a billing event or specific merchants free of charge. This should enable acquirers to attribute the behavioural fee costs to those responsible merchants rather than distributing the cost across the entire merchant base. Additionally, this should enable better information on fee charges being passed on to merchants, and incentives for changes in merchant behaviour.

We consider some standardisation of the information being provided by schemes and a taxonomy, may also be helpful.

We reiterate that all of these potential remedies should be assessed comprehensively, considering their costs, benefits and possible unintended consequences, once their implementation details are clear.

Question 26

• On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

EMA response: We consider it too early to comment on costs for this broad range of possible remedies, as they have been considered only at a high level, and given that the cost distribution may vary among ecosystem participants. At a high level, we anticipate that the additional costs resulting from the regulatory remedies – essentially a regulatory change – would be higher in many cases.

Question 27

• Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

EMA response: Regarding account-to-account payments, including through Open Banking, we agree with the PSR that they could introduce more competition to card payments in some retail scenarios. We also acknowledge that the timescales for achieving this outcome are currently uncertain, which highlights the need for the next phase of Open Banking to be clarified and for the market to be given the regulatory certainty to explore commercially viable alternatives to card payments.

Question 28

• Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

EMA response: We agree that encouraging surcharging is not a viable option at this time, since it is prohibited for domestic consumer payments, representing the majority of card payments. We also agree that encouraging consumer steering towards alternative payment methods is unlikely to be effective, given the lack of widely used and cheaper alternatives that would justify the complexity and potential friction costs to merchants associated with such steering.

Question 29

• Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.

EMA response: To reiterate, we believe it essential that any proposed remedies, especially those involving any type of price control, must be fully evidenced by comprehensive, and robust data demonstrating that the market is anti-competitive and failing. The PSR's findings thus far do not seem to justify a price cap.

Question 30 and 31: omitted

Question 32

• Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?

EMA response: We encourage the PSR to consider not only cost savings or reductions but also indirect, longer-term or less tangible benefits, such as improvements in card scheme service quality, innovation, and the stability of card payments - all of which benefit cardholders and merchants.

Question 33

• Is there anything else we have not considered, and you think we should consider?

EMA response: We emphasise that introducing too much divergence between UK and EU regimes could have a significant undesirable impact on the operations of schemes and stakeholders that are acquirers or issuers. We urge the PSR to carefully consider these aspects.

The PSR should also take account of the improvements and changes already being implemented by card schemes, acknowledging that the effects of such changes may take some time to materialise fully.

ANNEX II - List of EMA members as of July 2024

Airbnb Inc
Airwallex (UK) Limited
Amazon
Ambr
American Express
ArcaPay UAB
Banked
Bitstamp
BlaBla Connect UK Ltd
Blackhawk Network EMEA Limited
Boku Inc
Booking Holdings Financial Services International Limited
BVNK
CashFlows
Circle
Coinbase
Contis
Crypto.com
Currenxie Technologies Limited
Curve UK LTD
Decta Limited
eBay Sarl
ECOMMPAY Limited
Em@ney Plc
emerchantpay Group Ltd
EPG Financial Services Limited
eToro Money
Etsy Ireland UC
Euronet Worldwide Inc
Facebook Payments International Ltd
Financial House Limited
First Rate Exchange Services
Flywire
Gemini
Globepay Limited
GoCardless Ltd
Google Payment Ltd
IDT Financial Services Limited
iFAST Global Bank Limited
Imagor SA
Ixaris Systems Ltd
J. P. Morgan Mobility Payments Solutions S. A.
Lightspark Group, Inc.
Modulr Finance B.V.
MONAVATE
MONETLEY LTD
Moneyhub Financial Technology Ltd
Moorwand Ltd
MuchBetter
myPOS Payments Ltd
Navro Group Limited
Nuvei Financial Services Ltd
OFX
OKG Payment Services Ltd
OKTO
One Money Mail Ltd
OpenPayd
Own.Solutions
Papaya Global Ltd.
Park Card Services Limited
Payhawk Financial Services Limited
Paymentsense Limited
Paynt
Payoneer Europe Limited
PayPal
Paysafe Group
Paysend EU DAC
PayU
Plaid
Pleo Financial Services A/S
PPRO Financial Ltd
PPS
Push Labs Limited
Remitly
Revolut
Ripple
Securiclick Limited
Segpay
Soldo Financial Services Ireland DAC
Square
Stripe
SumUp Limited
Syspay Ltd
TransactPay
TransferGo Ltd
TransferMate Global Payments
TrueLayer Limited
Uber BV
VallettaPay
Vitesse PSP Ltd
Viva Payments SA
Weavr Limited
WEX Europe UK Limited
Wise
WorldFirst
Worldpay

Financial Services Consumer Panel

Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Email: enquiries@fs-cp.org.uk

Payment Systems Regulator
12 Endeavour Square
London E20 1JN

30 July 2024

Submitted by email: schemeandprocessingfees@psr.org.uk

Dear Sir/Madam,

Payment Systems Regulator Market review of card scheme and processing fees Interim report Consultation paper

The Panel welcome the opportunity to respond to the Payment Systems Regulator (PSR) consultation on the interim report on its Market review of card scheme and processing fees.

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

While the Panel's focus is predominately on the work of the FCA and the analysis and the recommendations outlined in this report are more directly addressed to scheme operators, card issuers and acquirors, we are responding to this consultation because payments are one of the cornerstones of the financial system and essential to consumers.

Payment charges have a direct impact on merchant costs and therefore the prices consumers pay for goods and services. SMEs and smaller merchants, which benefit neither from economies of scale nor bargaining power, are particularly affected by rises in card charges and typically pay the highest fees, in many cases also effectively providing a subsidy to the larger merchants.

As the report recognises, credit and debit cards are the most popular way to make retail payments in the UK, most particularly spontaneous retail payments[1]. Visa and Mastercard account for 99% of UK card payments

[1] https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf p5

and 84% of all UK retail payments[2]. With the decline in the use of cash and growth in use of cards linked to digital wallets and no immediately viable alternative, we expect the dominance of cards – and therefore these two providers – to continue. Addressing any abuse of the dominant position they are exerting is therefore urgent and vital.

The PSR's provisional findings show that the overall fee levels charged to acquirers by Mastercard and Visa have increased by more than 30% in real terms over the last five years, with little or no link to changes in service quality[3]. It is of particular note in our view that the two providers, whose business models explicitly benefit from economies of scale, effected this increase at precisely the same time that they benefited from the increasing reliance on and usage of card payments in the United Kingdom and increased UK cross-border interchange fees[4].

The PSR has rightly observed that the two providers' margins are higher than would be expected in competitive markets. They are not alone. The providers' margins have repeatedly been greeted with incredulity by the financial press[5] and with frustration by policymakers, for example in the US[6].

The PSR also notes that the information the providers publish lacks transparency. This lack of transparency appears to be pervasive in the providers' behaviours, suggesting deep-rooted patterns of deliberate obfuscation. We found two particular items of note that would seem to support this in the PSR's report. Firstly, and despite the geo-locational richness of card data and the efficiency with which the two providers appear to run their businesses, the information that the providers submitted to the PSR presented the regulator with "significant challenges

[2] https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf p20
[3] https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf p4
[4] https://www.psr.org.uk/our-work/market-reviews/market-review-into-cross-border-interchange-fees/
[5] https://www.ft.com/content/2515b713-f170-41e2-9995-5cd18b54ea6a
https://www.economist.com/business/2020/03/21/how-visa-became-the-top-dog-in-global-finance
https://www.economist.com/finance-and-economics/2022/08/17/can-the-visa-mastercard-duopoly-be-broken#
https://quartr.com/insights/company-research/visa-and-mastercard-the-global-payment-duopoly
[6] https://www.judiciary.senate.gov/press/releases/durbin-statement-on-visa-and-mastercard-settlement-with-us-merchants-to-address-excessive-swipe-fees
https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240424~12ecb60e1b.en.html

in looking at their UK profitability on a standalone basis". Their apparent inability to trace revenues and allocate costs seems unlikely.

Secondly, we were struck by the disparity in fee increases faced by merchants as summarised from their responses in 6.98. In our view such significant differences are only possible to effect in an opaque landscape and would therefore seem to underscore a deliberate and prevailing lack of transparency in the card market.

Given the clear lack of competitive constraints, the growing cost of retail payments, the increasing dependency on the two providers and their deep and growing entrenchment within the fast-evolving payments landscape we strongly support the PSR's work in this area. We agree with the PSR's conclusion that the two providers do not face constraints on either the acquiring side or on the issuing side.

We support the remedial measures the PSR is considering promoting better outcomes in the card scheme market – namely:

- requiring more detailed financial reporting from Mastercard and Visa;
- improving transparency to enable merchants and acquirers to make better-informed decisions; and
- placing obligations on Mastercard and Visa to explain, consult on, and document the reasons for price changes and the pricing of new services.

Like the PSR we agree that for the most part there are no viable alternatives for merchants – particularly smaller merchants – to steer consumers to. Absent such alternatives, remedies requiring merchants to actively steer their customers to choose a more beneficial payment method would not be effective in addressing the issues identified in this market review. We would therefore also strongly encourage the PSR to continue its work on Open Banking which could, over time and if properly and safely implemented, present a viable alternative to card payments.

This said, we believe that alongside the proposed remedies and the PSR's engagement on Open Banking, there is urgent work to be done on. ensuring consumers and merchants are aware of and understand the implications of different payment options – in particular the costs and protections that different payment methods offer.

The fees the two providers charge to merchants are built into the price of goods. Merchants must set those prices for consumers, whether consumers pay with cards or not. Any increase in card charges therefore immediately has a direct inflationary impact. This inflationary impact prejudices all consumers, but most particularly harms smaller merchants and the poorest consumers.

This is because while consumers pay the same cost for goods or services, irrespective of the instrument they use, most smaller merchants also pay blended fees, meaning that they pay the same rates irrespective of the type of card used and the type of transaction made. Coupled with the higher card charges that SME's face overall, this results in SMEs being charged more in percentage terms for, say, weekly shopping baskets, than large retailers and travel merchants are charged for white goods or flights. This is due to both merchant and consumer (likely unwittingly) subsidising the insured promise of credit cards in relation to eg white goods or flights, when selling or paying for essential food or incidental day-to-day items. This subsidy is pervasive across our day to day lives, enrichening the providers, harming consumers, and proving most prejudicial to the most economically vulnerable who are the least likely to benefit from the protections or rewards they are implicitly paying for.

It is only when armed with knowledge about different payment types and costs that merchants would be in informed positions to effect steering and that consumers would be able to make informed and appropriate choices.

We would like to end by taking the opportunity to set out our view of what a well-functioning payments landscape looks like for UK consumers. As in all areas of financial services, we believe that money providers and payments firms should have a duty to act in the best interests of consumers. The system should also be guided by the following principles:

- **Accessibility** - All UK consumers must be able to pay and be paid. The system must be accessible to all.
- **Fairness and affordability** - The cost of making payments should not exclude particular consumers, businesses, or transaction types. It should not cost more for the poorest to pay.
- **Reliability & resilience** - Individual payment systems must be robust and reliable with appropriate redundancy measures in place to ensure continuity of service in case of need. The failure of individual providers should not result in consumer losses.
- **Sustainability** – The Payment System should be operated on an economically sustainable basis. The failure of individual payment systems should not result in consumer losses.
- **Safety, security and consumer protection** –The Payment System must be safe and secure. It should offer consistent protection to consumers, including against fraud and losses as a result of firm failure.

- **Transparency** –The costs and protections associated with using different providers must be clear and easily understandable. Providers should offer full transparency about how end users' data is used, by whom and to what end.

We thank you for the opportunity to respond to this consultation.

Yours sincerely,

[redacted]

[redacted], Financial Services Consumer Panel

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We appreciate the opportunity to provide our input to the PSR preliminary findings.

We believe that implementing a price cap would be the most effective remedy in addressing the current market's competitive landscape and increasing scheme fees. In the absence of price caps, we strongly advocate for mandatory consultations with acquirers and enhanced transparency measures in relation to scheme fee changes.

We look forward to continued dialogue with the PSR and other stakeholders to ensure a fair and competitive payments market.

Question 1

- Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?

We generally agree with the description and considerations in Chapter 3. However, a more explicit recognition of the lack of viable alternatives to Visa and Mastercard is needed. For example, while digital wallets may be an alternative, they still rely heavily on the existing card networks for funding. Open banking and alternative payment solutions have not yet reached a level of maturity or consumer adoption that could pose a meaningful competitive threat.

The costs associated with mandatory technical changes imposed by the card schemes are borne disproportionately by acquirers and merchants, who have less negotiating power compared to issuing banks.

Additionally, we would like to provide some context to the PSR for future consideration. In relation to scheme program changes, following October 2024, cards globally will no longer be defined by their card type. Card credentials will have multiple funding sources a consumer can set up with their issuing bank. A debit card can act as a credit card and be subject to credit interchange based on the Funding Source selected by the cardholder, which will add further complexity to visibility into the fee structure. This is pursuant to the Visa Flexible Credential (previously known as Visa Multiple Account Access).

We would also like to point out that many services not related to processing are mandatory and acquirers and merchants are subject to non-compliance assessments for not supporting them. An example are merchant advice codes from Mastercard, which are provided for specific declines and billed regardless if the merchant can receive them, ingest them, and action them.

Question 2

- Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side?

We support the provisional finding that Mastercard and Visa face ineffective competitive constraints Their dominant market position allows them to impose and increase fees without significant challenge.

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Question 3

- Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process?

We would like to note that steering is restricted per card scheme rules. Card rules require a merchant to honour all valid Cards without discrimination when properly presented for payment. The scheme rules outline that a merchant must maintain a policy that does not discriminate among customers seeking to make purchases with a card.

Merchants may choose to limit acceptance, however that applies to all cards in a category (debit or credit), rather than a specific card type or payment method. Limited acceptance is governed by the card schemes and may be subject to non-compliance assessments. The "Honour All Cards" rule, which requires merchants to accept all cards from a scheme limits merchants' ability to steer consumers towards alternatives.

Question 4

- Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees

We support the finding that wallet operators and open banking solutions do not impose significant competitive constraints on Visa and Mastercard's fees. Wallets operate primarily within the existing card infrastructure and are subject to similar fee structures. Although open banking has potential, it currently lacks the infrastructure and consumer adoption necessary to provide a viable alternative to traditional card payments.

Question 5

- Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK?

We support the finding that there are no alternative suppliers of core processing services in the UK. Acquirers are compelled to comply with scheme requirements and programmes that incur additional costs.

Question 6

- Do you have any views on our analysis and provisional findings that: (i) acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services; (ii) acquirers and merchants face significant implications if they do not use these optional services; and (iii) acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services.

While services outlined in Appendix A are positioned as optional, many of these services are necessary for accurate cost allocation and reconciliation or are mandated by the schemes' rules for specific use cases. Scheme reports that are noted as optional are often required for an acquirer, as without them there is limited visibility into merchants contributing to charges, hence limiting acquirer ability to charge merchants correctly.

Use of CVC2 may be required as part of fraud prevention rules for specific verticals and part of the scheme rules, making them non-negotiable.

Schemes may introduce new enhanced requirements for acquirer monitoring and offer optional solutions to meet their mandate requirements with tight timeframes. In such cases being compliant with requirements without using the scheme developed solution would require extensive investment and resources from the acquirer to develop the required capabilities or risk non-compliance assessments.

Question 7

- Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services.

We believe there are no or very limited competitive constraints for Visa and Mastercard in the UK marker, as there is no alternative provider. The ecosystem of consumers, merchants, acquirers and issuers rely on on-network services that cannot be developed in house to process transactions and connect with other actors in the ecosystem. The market's structure, characterized by Visa and Mastercard's propensity to acquire alternative solution providers and integrate them within their optional service offering further limits competition.

Question 8

- Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services).

The alternatives to optional services suggested by Visa and Mastercard do not compete effectively with the core services offered by these schemes.

While a lot of these services as marked as optional, Visa and Mastercard might mandate support for the availability of the service, requiring processors and acquirers to implement changes to ensure the general availability to merchants.

Some of the services listed as optional may not be mandated by the schemes but are required to process and reconcile payments and manage disputes (TC33, Mastercom, CVC2).

There are limited alternatives for these optional services. CVC2 for instance may be required for certain types of payments, by issuers or within the scheme rules (recurring gambling CVC2 requirement). If a merchant does not use the CvC2 service in this scenario, their transaction may get rejected or they may be subject to non-compliance assessments.

Question 11

- Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years?

We support the provisional finding that revenue from the acquiring side constitutes the majority of net scheme and processing fee revenue. This highlights the financial burden placed on merchants and acquirers, as they are the primary source of income for these schemes.

Question 12

- Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years?

We support the provisional finding. The substantial increases in scheme fees, without corresponding improvements in service quality or innovation disproportionately affect acquirers and merchants, who must absorb these additional costs or pass them on to consumers.

Question 13

- Do you have any views on the extent to which changes in average fee levels in recent years have been accompanied by commensurate changes in: ○ The value to customers of the services provided by Mastercard and Visa? ○ the quality of service provided by Mastercard and Visa? ○ Innovation by Mastercard and Visa?
    - Aspects of the transaction mix or characteristics of acquirers or merchants that we may not have fully captured in our econometric analysis (see Annex 7)?

We have not observed significant changes in payment performance or risk mitigation that would justify cost increases. It's unclear how scheme fee increases contribute directly to authorization, processing speed or reliability, service level improvements or enhancements to scheme support structures.

Question 16

- Do you have any views on our analysis and assessment of the materiality of issues experienced by acquirers?

The are significant challenges related to fee transparency and complexity experienced by acquirers.

In depth analysis and resource is needed to understand the impact of fee changes. At present impact is not provided or indicated with the release of information. Financial impact is often limited to current processing. Significant resource is needed to ingest, review and action scheme announcements, with more than 2500 bulletins in the EMEA region in 2023. Some new services are opted out or released with a free trial that is not announced at release, where if an acquirer is not closely tracking the usage and dates, they may incur fees. Resource and time are needed to understand changes from the schemes, in some instances acquirers need to open projects with the schemes at cost to get engineering support or expertise on understanding and implementing changes, which is on top of tech debt and fee increases. Scheme billing centres and available online tools do not capture all costs that may be incurred by an acquirer and are often complex, resulting in the need for acquirers to maintain internal fee schedules at cost.

Question 17

- Do you have any views on our analysis and assessment of our analysis in respect of behavioural fees, and acquirers' ability to pass these fees on to merchants (as set out in Table 4)? If so, do you have any experience and/or views how widespread the issues identified are and their underlying cause or causes?

Behavioural fees are assessed to the acquirer are challenging to reconcile and pass on to merchants. Acquirers have to purchase additional reports from the schemes, as well as develop internal analytics to allocate costs effectively. Some merchants may be contributing very small numbers to non-compliance and behavioural fees, in which case involving them may be more costly than the behavioural fees.

Even though transactions contain multiple data elements to identify merchants, like MIDs, merchant name or sub-merchant IDs scheme reporting is done on an ICA/ BIN level and reviewing individual merchant performance is not possible.

Question 18

- Please provide your views on the prevalence (or otherwise) of acquirers having to purchase optional services to identify merchants incurring behavioural fees.

Acquirers may be compelled to purchase optional services to identify merchants incurring behavioural fees, adding unnecessary costs and complexity. This further demonstrates the need for greater clarity and transparency in fee structures.

Question 19

- Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers or merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.

The current assessment may not fully address non-price outcomes, such as technical debt and resourcing needed to implement changes and support mandatory services that are not integral to payments processing.

Question 20

- What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think the PSR should prioritise implementing?

While we support the proposed remedies, we urge the PSR to give further consideration to price caps as the most effective measure. In the absence of price caps, we are supportive of mandatory consultations with acquirers for new scheme changes and enforcing transparency in scheme fees. However, these remedies may have limited impact in bringing the desired outcome of limiting scheme fee increases.

Question 22

- Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

We believe that regulatory financial reporting alone will not significantly benefit acquirers and merchants. Regulatory reporting for the schemes may give the PSR more visibility into the pricing methodology and impacts of bulletins and announcements, as well as transparency on revenue that is needed to assess remedies effectively and seems to have been a challenge to obtain for the current market review.

While transparency is important, regulatory reporting may not have a direct outcome in relation to scheme fees but may result in a bigger reporting burden for acquirers unless combined with stricter regulatory measures, such as price caps or mandatory consultation processes.

Question 23

- Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

We are supportive of the proposed mandatory consultation and timely notification remedies.

Early visibility into new or amended fees will allow acquirers time to size impact, communicate to merchants and implement processes for effective billing. Early notifications can also help outline gaps in relation to fee reporting and reconciliation or outlier scenarios impacted by a fee disproportionately.

At present pricing mandates from the schemes may be issued with a very tight timeframe, or even after a fee has been amended, which creates challenges and requires resources for acquirers.

Question 25

- Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

Addressing complexity and transparency issues should be a priority. Providing more detailed, accurate information on fees, including guidance on classifying fees, would benefit acquirers and merchants, enabling them to make informed decisions.

Question 26

- On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

The costs associated with implementing the proposed remedies should generally fall within business as usual activities. It is essential to ensure that these costs are not disproportionately passed on to merchants and consumers.

Question 27

- Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

While initiatives to boost competition, such as promoting open banking and alternative payment methods, are valuable, they are unlikely to achieve the desired outcomes without regulatory intervention.

Question 28

- Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way

Initiatives to encourage surcharging or other forms of steering are unlikely to suffice without regulatory support. In the present framework, while merchants are limited on surcharging for specific payment types, they may be compelled to introduce surcharges and fees for all payment channels to address scheme fees, which may result in wider negative outcomes for consumers.

GoCardless

GoCardless

GoCardless Ltd.
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London
EC1V 7EN

GoCardless response to MR22/1.9: Market review of card scheme and processing fees interim report

GoCardless is a global bank payment company. We help more than 85,000 businesses, from start-ups to household names, collect both recurring and one-off payments, without the chasing, stress or expensive fees. Each year, GoCardless processes more than US$35 billion of payments across 30+ countries. Our acquisition of Nordigen means we're also helping businesses make faster and more informed decisions through easy access to bank account data. We are headquartered in the UK, with additional offices in Australia, France, Latvia and the United States. For more information, please visit www.gocardless.com.

GoCardless welcomes the opportunity to respond to this call for views.

The primary, provisional conclusion "that Mastercard and Visa do not face effective competitive constraints" rings true to GoCardless. Merchants have long reported rising costs for accepting card payments without commensurate improvements in service quality.

The PSR's provisional remedies focus on improving price transparency, communication with customers and regulatory financial reporting. However, the PSR also highlights "the importance of the PSR's work to unlock account-to-account payments, and Open Banking in particular, to facilitate greater choice for merchants for retail payments in the longer-term." Our response focuses on this element.

The "extent to which there are alternative payment methods in the UK, including whether they exert competitive constraints on the card schemes, and if there are barriers to entry and expansion for alternative provision" was identified as a key consideration in the terms of reference for the market review. The interim report states that:

"Given the widespread use of Mastercard and Visa in the UK, their cards are must-take for merchants in the UK. As a consequence, Mastercard and Visa must be offered by all acquirers, which would otherwise face, as one acquirer put it, 'critical and existential losses'" Our view is that if the PSR is serious about mitigating this risk, it is imperative that it focuses on increasing competition. There are few greater incentives to a firm to improve its offer to customers than a competitor doing it better and/or more cheaply.

In the absence of a new card scheme emerging (which we do not think would guarantee a change in card scheme behaviour anyway), our strong contention is that competition should be driven by delivering on the account-to-account payments agenda, in particular by accelerating progress with open banking.

The PSR, in collaboration with the other members of the Joint Regulatory Oversight Committee (JROC), has made strides forward on open banking, but 6.5 years on since it started we are still a long way from delivering variable recurring payments that have the potential to compete with cards. Progress is being held back by a range of factors including, but not limited to, the lack of:

- **A long term regulatory framework** (LTRF) that includes a funding mechanism for the Future Entity replacing Open Banking Limited. The Government intends to address this through a new Digital Identity and Smart Data Bill, but this legislation has not even started its passage through Parliament yet and it may be years before its provisions have any bearing on industry.
- GoCardless would urge the Government to move faster because, in the meantime, there is no secure funding for advancing the open banking agenda. Firms were recently asked by JROC to voluntarily contribute millions to an Interim Entity, with more voluntary funding calls expected between now and the LTRF being in place. As a result, JROC, Open Banking Limited and the open banking ecosystem as a whole are devoting significant attention to funding concerns. Solving this transitional funding issue would expedite the delivery of VRPs that can compete with card use cases.
- **A sustainable, commercial model** which incentivises innovation, competition and ultimately a high quality, reliable experience for open banking users. Building a pricing model is complex and, as yet, GoCardless has not seen a proposal that can command widespread industry support across the demand and supply side. It may be something that the PSR wishes to commission specialist consultancy support to assist and advise on; and
- **A singular, shared goal for open banking**. The ecosystem is diverse and complex spanning Government, regulators, market infrastructure bodies, banks, card schemes, payment initiation service providers (PISPs), customer representatives and many other stakeholders. Some ecosystem participants have reasons to prefer seeing the open banking agenda stall if not fail completely. There is a case for considering whether all parties should be equal in the process, or if some should be given observer status only, to reduce the number of speed bumps in discussions.

The interim report says that the PSR "is considering what further action may be necessary to accelerate the introduction of structural competition from account-to-account payments". However, the provisional remedies do not mention any

specific actions under consideration. GoCardless strongly encourages the PSR to develop its thinking and articulate what more it can and should do, as part of this market review, to unlock some of the issues above and ensure open banking's true potential can be reached as quickly as possible.

GoCardless would be happy to assist the market review team further if helpful.

HMRC

3.46 On both sides, we jointly considered the constraints that apply to credit or debit cards and to consumer or commercial cards.

3.47 Our analysis is conducted on a UK basis.

Questions for stakeholders

Question 1

- Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?

Comprehensive and clear.
No.

4.177 Therefore, our provisional conclusion is that, on the acquiring side, Mastercard and Visa do not face effective competitive constraints in the provision of core scheme services.

4.178 In relation to core processing services, we have provisionally found that:

- While acquirers have, in principle, the possibility of sourcing core processing services from providers other than Mastercard and Visa, in the UK, their ability to do so is very limited. Acquirers cannot unilaterally choose an alternative processor without an agreement with the issuers. Issuers have no incentive to migrate to alternative processors given how processing fees are structured in their current agreements with Mastercard and Visa. As a result, no alternative processors currently operate in the UK and we have seen no evidence of alternative processors planning to enter the UK.
- The same considerations made in paragraph 4.176 imply that merchants can impose very limited competitive constraint on Mastercard's and Visa's core processing fees.
- The constraint that operators of digital wallets can impose on Mastercard's and Visa's core processing fees are limited by the same factors discussed in paragraph 4.176.

4.179 Therefore, our provisional conclusion is that, on the acquiring side, Mastercard and Visa do not face effective competitive constraints in the provision of core processing services.

4.180 In relation to optional services, we have provisionally found that:

- The availability of effective alternatives is likely to vary across the many optional services that Mastercard and Visa supply to acquirers and merchants. In particular, available alternatives appear to be limited for some of these services.
- As Mastercard and Visa can provide a one-stop shop solution for core and optional services, they are in a stronger position than alternative providers of optional services.
- Acquirers' and merchant's ability to respond to fee increases for optional changes by decline to accept either Mastercard or Visa, or by steering consumers towards alternative payment methods is limited by the same reasons discussed in paragraph 4.176.

4.181 Therefore, our provisional conclusion is that, on the acquiring side, Mastercard and Visa have various degrees constraint across their optional services, with strong indications that lack of effective alternatives may result in Mastercard and Visa not facing effective competitive constraints in the supply of some of these services.

Questions for stakeholders

Question 2

- Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side? Agree with this assessment

Question 3

- Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process? No

Question 4

- Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees? Agree

Question 5

- Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK? No comment.

Question 6

- Do you have any views on our analysis and provisional findings that: (i) acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services; (ii) acquirers and merchants face significant implications if they do not use these optional services; and (iii) acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services. Agree.

Question 7

- Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services. No.

Question 8

- Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services). No.

Question 9

- Do you have any views on the optional services that we have not focussed on in our analysis (in particular those presented in Annex A to Annex 4)? If yes, please explain what these additional optional services are and what competition concerns you have around the supply of these services. No focus of regulatory and competition interventions by the PSR and other regulators over many years – for example, the PSR's work to reduce costs to merchants in scheme and processing services in our card-acquiring market review,[495] our ongoing market review of cross-border interchange fees charged to merchants on UK-EEA consumer transactions,[496] as well as decades of regulatory intervention, and competition enforcement and litigation, in relation to interchange fees paid by merchants in the UK and across Europe.

Questions for stakeholders

Question 11

- Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years? Agree with this assessment

Question 12

- Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years? Agree with this assessment

Question 13

- Do you have any views on the extent to which changes in average fees levels in recent years have been accompanied by commensurate changes in:
  - The value to customers of the services provided by Mastercard and Visa? Not directly aware.
  - The quality of service provided by Mastercard and Visa? No visible change to service from Merchants Side
  - Innovation by Mastercard and Visa? Whilst no visible change to service from Merchants Side,it's assumed innovation such as 3D Secure (E-Comm) has improved security
  - Aspects of the transaction mix or characteristics of acquirers or merchants that we may not have fully captured in our econometric analysis (see Annex 7)? No comment

Question 14

- Do you have any views on our analysis and provisional findings in our profitability analysis? In particular:
  - Are there any factors that we have not covered in our report that may provide information on the relative profitability of Mastercard's and Visa's UK operations compared to their global and European operations? No comment
  - Are there any other comparators that have greater similarity to Mastercard's and Visa's UK operations than those that we have identified in our report? No comment

495 PS22/2: *Card-acquiring market remedies: Final decision*, 6 October 2022.

496 MR22/2.6: *Market review of UK-EEA consumer cross-border interchange fees interim report*, 13 December 2023.

7.142 For these reasons, we provisionally find that the issues relating to the provision of information by Mastercard and Visa to acquirers are sufficiently material to warrant intervention under our service user objective.[697] We set out our approach to intervention in Chapter 8.

7.143 We welcome comments on the provisional findings in this chapter, and in particular responses to the questions below.

Questions for stakeholders

Question 15

- Do you have any views on our analysis and conclusion that issuers have a generally positive experience regarding the information they receive from Mastercard and Visa (such that they are able to access, assess and act on that information)?

Not an issuer, No comment

Question 16

- Do you have any views on our analysis and assessment of the materiality of issues experienced by acquirers?

Not an acquirer, so no direct view on this, however from the analysis provided, I agree with you assessment.

Question 17

- Do you have any views on our analysis and assessment of our analysis in respect of behavioural fees, and acquirers' ability to pass these fees on to merchants (as set out in Table 4)? If so, do you have any experience and/or views how widespread the issues identified are and their underlying cause or causes?

Not an acquirer, but as a merchant we have experienced difficulty in getting information on what triggered behavioural fees (Mastercard Final Auth Fees) passed on to us.

Question 18

- Please provide your views on the prevalence (or otherwise) of acquirers having to purchase optional services to identify merchants incurring behavioural fees.

No comment

Question 19

- Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers or merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.

No.

697 As explained in paragraph 2.26 of this report, the PSR's service user objective, set out in FSBRA, is to 'ensure that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by different payment systems'.

Complexity and transparency

8.31 We have provisionally found that scheme and processing fees are overly complex and lacking in transparency, and that this is not working in the interests of service users. We consider that the evidence we have gathered indicates that the issues are sufficiently material as to create poor outcomes for acquirers and merchants, in particular by raising acquirers' costs and distorting acquirers' abilities to respond to the schemes' price signals.

8.32 We are considering potential remedies to address these issues:

- A requirement that behavioural fees are invoiced with sufficient detail, in an appropriate and accessible format, to ensure that acquirers can accurately pass the costs on to those merchants responsible for triggering them.
- A requirement that for all optional services they are clearly identified as optional through the development of clear service level descriptions setting out how and why they are considered optional, and are offered on an opt-out basis
- A requirement to provide clear information to merchants on how scheme and processing fees work, whether through bespoke materials or a dedicated web-portal. This might include a tool to allow merchants to understand what services a business of their size and industry would typically purchase. This tool might also include the ability for merchants to input information i.e. nature of their transactions to help get a better information relevant to their business. This could be useful for Merchants, as long as no cost?
- A developed taxonomy of scheme and processing fees, so that the classification of fees is consistently understood across the UK payments sector. If fees were wrongly classified as optional or mandatory, sanctions could be imposed and affected acquirers and merchants compensated.
- Requirements on the card schemes to reduce their number of services, either in the form of a broad obligation to demonstrate steps being taken over time to reduce their number of services or precise obligations to reduce their number of services by a specified number of percentage.
- Improvements to the ways in which information is made available through the schemes' portals.

8.33 A particular area of focus for our thinking in this area is likely to be in respect of SMEs, who lack internal expertise and familiarity with acquiring contracts. We consider that there is more that Mastercard and Visa can, and should, do to simplify the increasingly complex range of services provided via acquiring contracts to merchants. We recognise, however, that such interventions would need to be developed in a way that respects and reflects the variety of commercial relationships between acquirers and merchants. We are keen to hear from acquirers about ways in which they think Mastercard and Visa could help to improve understanding of scheme and processing services on the acquiring side.

8.34 More generally, we consider that any remedy or remedy package put in place to address the complexity and transparency issues we have provisionally found should deliver meaningful transparency. This should arise both directly, by bringing into focus considerations or aspects of the market that had hitherto been concealed or poorly understood, and holistically, by helping contribute to an enhanced ecosystem in which Mastercard and Visa are held accountable to a higher standard of transparency and clarity than they are at present.

Action we're not considering

Boosting competition

8.35 We have considered in principle whether we could do more to boost competition in alternative payment methods for card transactions in the UK.

8.36 We have provisionally found that there are very few alternative methods to pay for these transactions (see Chapter 4). In this regard, we consider that the work programme underway in the PSR to unlock the potential of account-to-account payments, including through Open Banking, could introduce more competition over time, leading to innovation, payment services that better meet the needs of end users and competitive [or efficient or more cost-reflective prices. The provisional findings in this market review emphasise the importance of this work, and we are considering what further action may be necessary to accelerate the introduction of structural competition in account-to-account payments. Our finding that Mastercard and Visa face ineffective competitive constraints underscores the importance of our existing work to unlock the full potential of open banking payments, including in retail use cases.

We offer open banking option already

8.37 Therefore, noting that boosting competition is already an important part of the PSR's Strategy, we are not minded to explore further this type of action as part of this market review.

Encouraging steering

8.38 Merchants may 'steer' their customers to choose a payment method that is advantageous for the merchant.

8.39 We have considered at a principles level the implications of encouraging merchants to:

- provide a benefit or disadvantage for choosing a particular payment option
- use behavioural or visual cues to encourage customers to choose a particular payment option

8.40 This could include:

- nudging customers towards cheaper payment methods through user-interface design
- ordering the list of accepted payment methods
- reducing the friction for customers when they select the non-card-payment method rather than the card-payment method

We do this already

8.41 In theory, if payers had wider access to alternative payment methods, merchants could use other ways to steer consumers towards payment methods beneficial for the merchant. Encouraging UK merchant steering could theoretically let those UK merchants avoid higher scheme and processing fees. However, we have provisionally found that there are currently limited alternative ways to pay for UK card transactions, and that the constraint consumer steering can impose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process. We have also provisionally found that merchants have limited ability and incentives to steer customers away towards them in response to scheme or processing fees, noting also that consumer steering often has limited impact and can result in costs to merchants, Depending on responses to this consultation, we may decide that action is not warranted or that it is preferable to take alternative action to that set out above.

8.49 Taking the above considerations into account, we consider that it is possible that it may take up to two years for RFR to be fully implemented, and several years for the PSR to act upon the information gathered as a result, if necessary to do so. We therefore consider that it may be necessary or appropriate, in line with our statutory objectives, to put in place interim remedies (by which we mean alternative remedies to mitigate the issues we have identified in the short-term whilst developing our enduring remedies). Such remedies would require careful consideration, and may include placing obligations on the schemes to take certain steps before implementing price increases, for example requiring explanations of the basis for increases (including by reference to cost changes), and consultation with affected participants, including acquirers, merchants and merchant associations. Before implementing such a remedy, we would need to consider how to deal with the situation where one card scheme was in compliance and the other was not, without causing prejudice to service users or the card schemes.

Questions for stakeholders

Question 20

- What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?

As a Merchant, any remedy that brings price down is favoured, however understand the rationale for proposed categories of remedy. If not able to do in tandem - priority order of implementation of 1)complexity & transparency, 2)Regulatory Finance Reporting, 3_Pricing Methodology and Governance

Question 21

- Are any transitional provisions needed?

No

Question 22

- Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

Yes, in order for PSR to have collective robust and reliable data from the cards schemes to, in the future, be able to consider pricing caps etc

Question 23

- Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

No comment

Question 24

- Do you have any views on ways in which other stakeholders, for example merchants, merchant associations and consumer groups could participate in consultative discussions with the card schemes?

Online surveys and round table events with schemes

Question 25

- Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

Yes, so that acquirers and merchants can readily understand and be prepared for price increases and consider ways of mitigating these in advance.

Question 26

- On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

It would be beneficial to Merchants if any associated costs for the remedies are met by the schemes/issuers.

Question 27

- Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

Agree. We already offer other payment methods to card payment, including open banking to customers, however this does not fully address the issues identified in this market review.

Question 28

- Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

Agree. We already offer other payment methods to card payment, where the customer does not incur a surcharge so they already have choice, however this does not address the issues identified in this market review.

Question 29

- Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.

Response - Agree with the PSR position that it would be challenging, based on the evidence PSR currently has to design a price cap that was consistent with your statutory objectives (para 8.45).

Question 30

- Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.

No, as expect some make take a while to implement.

Question 31

- Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.

No comment.

Question 32

- Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?

We think customers would benefit from improved customer journey and removal of fees (if possible).

Question 33

- Is there anything else we have not considered, and you think we should consider?

Not at this time.

Ikea (Ingka Group)

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An IKEA retailer

Contribution from Ingka Group (parent company of IKEA UK and Ireland)
Ingka Holding B.V. and its controlled entities

Answer to the request for feedback on the Interim Report – Market review of card scheme and processing fees

About IKEA and the Ingka Group

Since its founding 80 years ago in 1943, IKEA has offered well-designed, functional and affordable, high-quality home furnishing, produced with care for people and the environment. There are several companies with different owners, working under the IKEA brand, all sharing the same vision: to create a better everyday life for the many people.

With IKEA retail operations on 32 markets, Ingka Group is the largest IKEA retailer and represents about 90% of IKEA retail sales (including IKEA UK and Ireland). It is a strategic partner to develop and innovate the IKEA business and help define common IKEA strategies. Ingka Group owns and operates IKEA sales channels under franchise agreements with Inter IKEA Systems B.V. It has three business areas: IKEA Retail, Ingka Investments and Ingka Centres. Read more on Ingka.com.

IKEA opened its doors in the UK in Warrington in 1987. Today we have 20 full sized stores, one city store, one Order and Collection Point and three Plan and Order Points. In December 2022, IKEA UK announced total sales of £2.2 billion for the year ending 31st August 2022[1], which marks double-digit sales growth of 13% compared to the previous 12 months.

Our answers

We appreciate the work and analysis conducted by the PSR in investigating the international card schemes' market dominance. We welcome and concur with the findings that the schemes do not face effective competitive constraints posed by alternative market participants, solutions, or technologies. We therefore focus on answering questions related to the introduction of potential remedies.

Question 20: What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?

We welcome the numerous proposed remedies.
We encourage the PSR to act with accelerated urgency, particularly in the complexity and transparency areas of suggested remedies, as we consider that these would be the most

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efficient and effective path to enabling a firmer conclusion on existence on unduly high pricing, and also remove barriers described in section 8.45.

Question 21: Are any transitional provisions needed?

Once an announcement is made that a model for simplification and transparency remedy will be mandated for a certain date, the schemes should be prevented from levying new fees or increasing existing fees until the remedies are in place in order to avoid a strategy whereby the schemes frontload fee changes to circumvent effects of said remedies.

Question 22: Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

Along the lines of creating transparency, we also see a need for the international card schemes to disclose their financial performance in the respective jurisdictions in which they are active. Public authorities and oversight must be in possession of accurate information allowing them to analyse in a pertinent manner financial data and derive the right conclusions.

We therefore, in principle, agree that a Visa and MasterCard must provide regulatory financial reporting in the UK (and other jurisdictions in which they are active). However, we would question to what extent such reporting will enhance the PSR's provisional findings, which already indicate that "Mastercard and Visa have been able to significantly increase prices in recent years, with evidence pointing towards fees being increased with little or no link to changes in service quality" (8.4).

Question 23: Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

As outlined in our answer to question 20, we believe that remedies relating to improving transparency and removing complexity of fee charges would be most efficient and effective in removing barriers as described in in section 8.45. The remedies proposed under sub-header "mandatory consultation and timely notification requirements" will help establish the needed transparency in the market and we therefore see them as a suitable extension to the remedies titled "complexity and transparency".

We strongly encourage the PSR to pursue and implement all measures that will help market participants, i.e. merchants and acquirers, to make informed business decisions. A requirement to ask acquirers to comment on the introduction of fees changes, and a report of acquirer feedback of said changes will certainly help improve awareness of market participants the schemes' fee policies.

The proposed remedies will not overcome the fact that a large proportion of merchants, notably SMEs, be consulted during such exercise. Merchant acquirers will, at best, reach out

to their tier 1 merchants and ask for feedback, knowing that such merchants are a) have a dedicated person or team to respond to queries from acquirers and b) have the expertise to respond to technically complex questions relating to fee policy.
In addition, it is not clear how the introduction of such remedy, will sustainably change the schemes' policies. Even where reports indicate that market participants are sceptical towards fee changes as proposed by the schemes, MasterCard and Visa would still be in a position to carry on and implement such changes (after a freeze period as proposed by the PSR).

Question 24: Do you have any views on ways in which other stakeholders, for example merchants, merchant associations and consumer groups could participate in consultative discussions with the card schemes?

Allowing the merchant community to be able to participate in consultative discussions with the card schemes will be instrumental as merchants are the ones most affected by the card schemes pricing policies. Merchants do not have a direct contractual relationship with the card schemes – as a result they would only be informed of any changes in scheme and processing fees via their card acquirers. However, we are concerned that merchant acquirers may only pass on the request for feedback of upcoming fee changes to tier 1 merchants. Therefore, there is a need to explore how a wide range of merchants, from all sectors and sizes, can be reached to inform them of the upcoming fee changes and allow them to respond to consultations.

A way to do this is by mandating schemes to not only include acquirers in their requests for feedback but equally the most important merchant associations. The PSR could then play an active role in bringing together representatives of these associations and businesses in a semestrial roundtable to discuss proposed fee policy changes.

Question 25: Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

Of all the proposed remedies we estimate that those targeted to improving transparency and simplification of scheme and processing fees will have the biggest impact. Merchants find it increasingly difficult to comprehend the nature of the various invoiced fees and cannot identify them in the reporting provided by their acquirers. In conversations we have had with our acquirers we understand that even acquirers are unable to apply the catalogue of different fees in the right manner – behavioural and optional fees are good examples for which more transparency and simplification would be needed.

A taxonomy as proposed by your remedies would also be helpful, as long as it would be a universal taxonomy applicable to both schemes. We consider such a taxonomy to be a necessary initial step in order to facilitate the effective delivery of any further remedies. A taxonomy effectively delivered would enable a structured framework upon which to make any consultation, notification or pricing methodology requirement more meaningful and measurable.

Question 26: On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

From a merchant perspective, none of the remedies proposed by the PSR will lead to implementation costs exceeding those of newly introduced fees. We are, however, concerned that some provisions as proposed may trigger the card schemes to pass-through additional costs down the payment value chain. Specifically, the nomination of a senior employee of the schemes to defend the schemes' pricing methodology (as part of the proposed "pricing methodology and governance" remedies) will likely represent additional costs justifying price increases.

We encourage the PSR to take care to consider this risk in assessing and prioritising the value of each proposed remedy. But we also highlight the need for the same risk to be considered in the design of any pricing methodology and consultation requirements, such that the schemes will be unable to unilaterally mandate that any of the remedies proposed will justify an increase in price without suitable demonstration of actual increased cost that isn't already absorbed in the description of existing fees.

Question 27: Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

Yes. We see an urgent need to promote competition in the payments market and concur with your analysis in chapter 4. We strongly encourage the PSR to help accelerate the introduction of long-term, sustainable competition via account-to-account payments, but are concerned that effects of such efforts will only be visible too late. Additional intervention may therefore be necessary to counterbalance.

Question 28: Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

We have experienced in the UK that applying surcharges to a particular payment option has proven to be an effective way to steer customers to less costly payment options. Such mechanism is often complex and may cause confusion for our customers. Merchants may therefore prefer not to rely on such methods, but it is a valuable option of last resort.

A total ban on surcharging would take away an opportunity for merchants to influence consumer behaviour. Any purchase decision is a trade-off between benefit and costs. A surcharging ban removes costs from that equation, disabling consumers to make an informed choice.

A surcharging ban also further increases the barriers for new players entering the market where Europe wants to enhance the level playing field between different types of payment providers. The dominance of incumbent non-European payment schemes would be strengthened and as a result, European strategic autonomy would be weakened by a surcharging ban.

The right to surcharge payments helps protect merchants against abusive price behaviour by payment schemes. Particularly SMEs who have less power to negotiate.

While we take this position, we suggest caution in prioritising surcharging as a remedy above others such as complexity and transparency, due to the potential complications and disproportionate resources constrained resulting from requiring acquirers themselves to enable such a solution, notwithstanding any existing bilateral contractual agreements they may already have in place with schemes.

Question 29: Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.

No, we do not agree. We believe that your very valid analysis already demonstrates unduly high prices (noting also our response to question 22) and justifies the consideration of price control mechanisms.

As a key conclusion of your analysis the PSR mentions that the international card schemes do not face efficient competitive constraints, leading to a position in which “Mastercard and Visa have been able to significantly increase prices in recent years, with evidence pointing towards fees being increased with little or no link to changes in service quality” (8.4).

The fact that competition can be observed in the issuing side of the 2-sided market does not rectify harms caused by the lack of competition on the acquiring side. As you outlined in your report, “[…] the evidence that we do have, combined with the clear evidence of a lack of effective competitive constraints on the setting of scheme and processing fees on acquiring side (see Chapter 4), leads to concern that such harm is likely to exist and is likely to be material” (section 6). The introduction of price caps could be an appropriate mitigation to protect acquirers and merchants.

Question 30: Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.

We propose remedies to not be time-limited.

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Question 31: Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.

In consideration of our responses which are generally supportive of the remedies proposed, we nonetheless consider these to be initial or foundational steps towards effectively addressing the harms identified.

We strongly believe that the identified harms can only be meaningfully addressed by remedies such as

- Fee caps (as discussed in our response to question 29)
- Least-cost routing or co-badging style regulation such as Regulation II: Debit Card Interchange Fees and Routing as part of the Electronic Fund Transfer Act (EFTA) in the USA, commonly referred to as the Durbin Amendment
- Enforcing zero interchange cap, splitting the 2-sided market

Question 32: Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?

The harms identified in the analysis presented have an indirect impact on our ability to offer a low price to our customers, and any effective remedy will therefore have a direct benefit to customers.

Merchants are customers of the payment ecosystem. As outlined in our answer to question 20, we welcome all proposed remedies, especially those targeting to improve transparency and simplification of the scheme and processing fee charging.

Efficient and transparent markets will also bring substantial benefits to private customers, notably by a reduction in retail prices and improved consumer choices.

Question 33: Is there anything else we have not considered, and you think we should consider?

As a respondent to this questionnaire, we offer our enthusiastic support to the PSR's endeavours, and encourage further outreach to the extent required that would maximise the speed of change.

For further information, please contact:
Ingka Group Finance
[redacted]
IKEA United Kingdom and Ireland [redacted]

John Lewis Partnership

John Lewis Partnership response to the PSR's Market Review of Card scheme and processing fees interim report consultation (30th July 2024)

The John Lewis Partnership (JLP) is an omni-channel retailer in the UK and our primary retail businesses are John Lewis (department stores) and Waitrose (Grocery). John Lewis operates 34 shops plus one outlet across the UK, as well as johnlewis.com. Waitrose has ~330 shops in England, Scotland, Wales and the Channel Islands, along with convenience branches including Welcome Break locations. The Waitrose omnichannel business includes the online grocery service, Waitrose.com, as well as specialist online shops including waitrosecellar.com for beers, wines and spirits and waitroseflorist.com for plants and flowers.

We welcome the opportunity to respond to your latest consultation on the PSR's card scheme and processing fees market review. As you are aware, the John Lewis Partnership has responded directly to previous consultations on this market review and we strongly support the work you are doing to evaluate whether the markets in connection with scheme and processing fees are working well for all users, and particularly for merchants and consumers. We agree with your provisional conclusions that the market is not working well and intervention by the PSR may be appropriate. We believe intervention is absolutely necessary, with both interim and long term remedies needed to mitigate the issues that have been identified and associated financial impacts to merchants, and to ensure the right balance of competitive constraints on all sides of the market.

As a member of the British Retail Consortium, the main trade body for the retail sector, our views are reflected in the response that they are putting forward to this consultation. As a result - and in lieu of responding to all the individual questions for this consultation - we wanted to use our direct response to focus on calling out a few specific points from a John Lewis Partnership point of view, namely:

- The feedback shared both via the BRC and in our direct responses to this and previous consultations relate specifically to the two card schemes in scope of the PSR's market review, namely Visa and Mastercard.

- The specific points made around poor service from Visa and Mastercard relate to the lack of clarity and transparency merchants receive on the rationale for new fees being introduced or existing fee changes, and the lack of clearly demonstrable value justifying the increases.

- We strongly echo the BRC's call for action for the PSR to implement interim and longer term remedies.

- With the Price Rebalancing remedy, we acknowledge the value of Issuer incentives by Visa and Mastercard (given the cost of change associated with the move from one card scheme to another). The focus of this remedy should be to rebalance the position from both an Issuer and Acquirer angle and ensure a fair and equitable payments ecosystem for all players.

Careful consideration would need to be given to the mechanics of how this remedy would operate (e.g. the average net pricing proposal) and we support the PSR's plans to consult with the industry on the implementation of any remedies.

- We support the information remedies the PSR is considering - i.e. Regulatory Financial Reporting, Pricing methodology and governance, Mandatory consultation and timely notification - and consider these to be part of the foundational framework to support and measure the effectiveness of the wider remedies. However, these alone will not sufficiently address the issues identified and therefore these must be accompanied by other remedies such as a Price Rebalancing and Price Cap remedy. Furthermore, practical measures to ensure sufficiently robust information is available in the short term must be progressed, so as not to delay moving forward with any interim measures or further delaying implementation of longer term remedies.

We would be happy to engage in further dialogue with the PSR - both directly and via industry roundtables or discussions with the BRC - as the PSR works through the consultation responses.

Lloyds Banking Group

LLOYDS BANKING GROUP PLC

Response to MR22/1.9: Market Review of card scheme and processing fees interim report [May 2024]

Submitted on 1 August 2024

This response contains confidential, commercially sensitive information the disclosure of which to third parties could harm the legitimate business interests of Lloyds Banking Group (LBG). Accordingly, this response should not be published or disclosed to any third party without giving LBG the opportunity to redact such information. This response is also solely provided to the PSR in relation to MR22/1.9 and should not be disseminated more widely within the PSR than which is necessary for the purposes of the PSR's evaluation of its call for views absent LBG's consent.

EXECUTIVE INTRODUCTION

As a **leading UK financial services provider, Lloyds Banking Group provides financial services to 27 million customers** in the UK. We help millions of customers – individuals, families, and businesses – to spend, save, borrow, and invest to help Britain prosper.

By supporting businesses, working to prevent fraud, helping customers with their financial resilience through the issuance of debit and credit cards, and our support through our acquiring services helps us deliver on this purpose.

We operate across the payments ecosystem; as an issuer, acquirer and third party provider and it is the interests of our customers and merchant clients that we have front of mind. We continue to support the PSR's Market Review into card scheme and processing fees and welcome the opportunity to comment on its proposed remedies.

We agree that the PSR needs to achieve balance with its remedies package - seeking to address the issues while avoiding the risk of unintended consequences and costs in a complex market.

We hope that our response is useful and constructive for the PSR. We are happy to discuss any queries and can be contacted at [✂]

The UK has one of the most diverse and innovative payments sectors in the world.

1.1. Issuers, acquirers, card schemes, fintechs [✂] and technology firms have all played a critical role in achieving this success. In Joe Garner's Future of Payments Review report, he noted that the UK's dynamic payments market is "in a good position today with many positives" and is a "leader in innovation".[1]

1.1. When looking at the UK against international comparators, they **"could not find evidence to suggest that the UK is significantly out of line internationally".**[2] However, Garner has illustrated that the UK would benefit from greater choice in payments on a qualitative rather than quantitative basis, and that merchant and customer satisfaction could be improved through more **"choice or digital alternative to the existing card schemes".**[3]

1.2. Some merchants have already addressed this through investing more to provide **diverse payment options** for their customers. This choice is integral to their overall **value proposition**, which includes factors beyond just pricing. Merchants are ultimately driven by consumer needs. Many merchants are proactively investing in alternative payment acceptance methods to cards to ensure a rounded and compelling customer offering. That merchants choose to pay more for `some of these options than they do for cards signals that it is the overall value of the proposition (including non-price competition) that matters.

Cards provide significant value to customers and businesses alike.

1.3. From a customer perspective, they are widely accepted globally, they are a convenient, trusted and reliable way to pay, provide consumer protection, and offer a quick and seamless user experience. Positively, the Future of Payments Review found that **"innovation appears to be occurring in the cards payments market at a significant rate".**[4] To enable this innovation, card schemes are required to manage a complex and long value chain, which supports card choice tailored to customer need, managing large volumes of data, reducing fraud, processing chargeback and dispute whilst continually innovating (not least in relation to fraud prevention).

1.4. **It needs to be recognised that cards play a fundamental role in driving growth and innovation in the UK economy.** They offer significant value to both customers and businesses. From a customer's perspective, cards are widely accepted globally,

[1] 'Future of Payments Review', p8, Joe Garner, 2023.
[2] Ibid, p64.
[3] Ibid.
[4] Ibid.

provide a convenient, trusted and reliable payment method. They also offer consumer protection and ensure a quick and seamless user experience.

1.5. For merchants, cards (supported by issuers) allow customers to access credit without merchants having to operate a lending business themselves. Additionally, cards facilitate a straightforward check-out process and help reduce cash management costs. The rise of contactless and card-not-present payments has also fostered new business models and increased competition (e.g. online-only businesses, digital wallets). Investments in tokenisation enhance payment processes while strong customer authentication improves security. Continuous innovation, managed through this complex value chain, therefore supports greater choice for consumers.

The PSR has correctly concluded that Visa and Mastercard compete strongly on the issuing side, which reflects the interests of customers (consumers and businesses).

1.6. Competition is clearly working well and delivering benefits for customers. The issuing market is competitive, ensuring schemes provide good outcomes for customers. Issuers can and do switch schemes - as cited in the PSR's report – and we have seen a number of recent examples doing so in order to benefit customers.

1.7. The issuing market itself is also competitive, as seen on both the demand side (e.g. with customers willing and readily able to switch, multi-home and choose alternative payment providers/methods) and on the supply side, such as new entrants being supported by commercial models on cards, and innovation such as data APIs, tokenisation & contactless technology. Intervening in this competitive landscape is unnecessary and could jeopardise the best outcomes for customers.

We do believe, however, that there is room for improvement from the card schemes.

1.8. [✂]

1.9. [✂]

1.10. [✂]

When considering what regulatory intervention may be appropriate beyond increased transparency, it is important that the PSR carries out a robust cost-benefit analysis.

1.11. Regulatory compliance comes at a cost, which may be passed on to the schemes' customers (issuers and acquirers), and there is a risk of unintended consequences. The primary concern with additional regulatory compliance from an acquiring perspective is additional cost and infrastructure required to manage and the impact of any intervention on the dynamic nature of the market and the quality of the service we are able to offer our merchants. In our view, proportionate and principles-based regulation rather than rigid rules tends to lead to better outcomes. Looking at the measures proposed that would directly impact on acquirers, we would note the following:

1.12. **Pricing methodology and governance:** We would advise caution on pricing methodology remedies, as this may inadvertently lead to price control and/or deter innovation (whether positive approval or non-objection from the PSR). What is most important is that schemes articulate the value of the changes to merchants in simple language, which acquirers can use in the best way with their merchant clients. We would be concerned about costs of intervention, in the pricing framework and transparency requirements, being passed on to acquirers. The PSR also needs to be mindful of the possibility of unintended consequences of intervention given the payments system has a long and complex value chain. Any regulatory interventions or remedies should fully consider the broader economic implications of the changes and what it means for the UK's international competitiveness (e.g. as an attractive place for the schemes to focus first for investment and innovation).

1.13. **Complexity and transparency:** The individual schemes have already developed their own taxonomy for fees; however, parts of the fee structure remain complex (some examples of which are set out in paragraph 1.16 below) which results in difficulty in passing on all costs, and therefore remedies should be considered. However, we acknowledge that simplification is difficult given the different payment methods and associated costs. As above, what we are looking for from the schemes is a clear and simple articulation of the value proposition for merchants and rationale when changes are made. We agree that this dialogue with merchants is best achieved through acquirers. Additional direct information tools for merchants may simply create confusion, may not directly correlate to charges by acquirers (e.g. if some of the costs are absorbed), would fail to present the full value picture (including non-price factors) and would be complex to design.

1.14. **Mandatory consultation and timely notification requirements:** We would welcome consultation and timely notification and believe there is also a need for greater transparency and simplification, which we think should be considered as a priority for deployment. However, any methodology and governance should not be overly rigid as this could increase costs, complexity, and the speed of change. Timely notification is of benefit to all parties, as it will ensure clear understanding of the change before being applied and linked in with system build requirements.

1.15. We are supportive of early engagement on the scheme roadmap on upcoming changes and clearer provision of information by Visa and Mastercard on all scheme bulletins with ample notice period, ideally 9 months or more. The scheme bulletins are currently highly technical and could be materially enhanced by a simple business friendly description of the change, explaining the benefits to the acquirer and merchant and any charge levied. This would importantly improve our ability as acquirer to react and plan for the change, and as needed to support communications directly with merchants who may be impacted. Clear and timely communications are particularly important in our compliance with our FCA Consumer Duty obligations.

1.16. [✂]

We agree on those remedies that the PSR has provisionally decided not to pursue.

1.17. **Price cap:** Pricing regulation and control should be a last resort, especially where there are concerns around competition that could be otherwise resolved. The PSR is right not to pursue price caps at this stage given limited information, the high risk of unintended consequences and the potential for other remedies and market developments to address any concerns.

1.18. **Encouraging steering:** Merchants are already able to 'steer' customers, e.g. ordering payment methods, and we do not believe further nudging is appropriate. Given the PSR's conclusions that many of the alternative payment methods are more expensive than cards, increasing friction in payments journeys is bad for customers, and that merchants want to allow customers to pay in whichever way they choose, we believe this is at odds the interests of merchant clients. As the PSR notes, remedies requiring merchants to actively steer customers would not be effective in addressing the issues the PSR has identified.

1.19. **Boosting competition**: We agree that the PSR does not need to take forward additional work in this area and is right to focus on the development of Open Banking. We support the development of Open Banking, offering a growing range of Open Banking based services to our customers and clients. For Open Banking payments to be a credible alternative, and another successful payment option, we believe that it requires: **consumer protection equivalent to cards, a sustainable commercial model, legal certainty, centrally managed distribution of liability, that supports good incentives for the safety and stability of the network, and a consistent multi-lateral approach.**

1.20. These factors will drive efficient network effects. However, we do not believe that the proposals set out in the PSR's Call for Evidence (February 2023) are aligned to this. A commercial model will be vital to support consumers when transactions go wrong and to allow for further investment and innovation, particularly when considering the Consumer Duty's high and clear standards of consumer protections.

1.21. In the Interim Report, the PSR reiterates its ambition to position Open Banking as a robust competitor in retail transactions and to further develop Open Banking as an alternative to card schemes, which was also identified in the Future of Payments Review. The review specifically called out the need for a commercial model:

"Feedback is consistent that new payments approaches can only thrive when they have both a sustainable commercial model and adequate consumer protection. Without a sustainable commercial model, there is no money to fund adequate consumer protection and infrastructure investment. Open Banking's current economics create no incentive for their providers to drive, invest and support it, and no margin to invest in consumer protection. While some argue that the costs should be funded from profits made elsewhere, this creates cross subsidy and replicates the problems created by the 'free if in credit' banking model."[5]

We would welcome the opportunity to discuss these points further with the PSR as it develops its remedy proposals.

[5] Future of Payments Review', p71, Joe Garner, 2023.

NatWest

PSR - Market review of card scheme and processing fees

NatWest Tyl Response to PSR Interim Report

Tyl welcomes the opportunity to provide comments as an acquirer to the Scheme and Processing Fees Market Review Team. These comments reflect our conversation on Wednesday 24 July.

Complexity and transparency

[✂]

We strongly support the creation of a standard taxonomy within and across schemes, to aid comparison. For example, we would like to see tags to help confirm:

- Applicability to Issuer / Acquirer;
- Regional / Country focus;
- Mandatory / Optional, and guidance on how to opt-in/out;
- Timescale for implementation and sufficient notice to implement.

In the first instance, Visa and Mastercard could be encouraged to collaborate over the creation of a standardised taxonomy. [✂]

We also support the simplification of fee structures. We believe that the number of categories of fees in place today is significant and can be reduced, while maintaining room for innovation. [✂]

We also support measures to standardise when fee updates are applied – perhaps once per quarter, instead of on a continuous ongoing basis. It would also make sense to have standardised timescales for implementation following introduction.

[✂]

Mandatory consultation and timely notification

[✂]

There would be a significant change in market dynamics if merchants were involved directly. The impact would not be linear. It's not just which fees apply, and what the cost of those fees is. For each merchant it will also depend on the mix of cardholders, and which authentication methods they use. It will further depend on which acquirer they are using and what rates or rebates that acquirer has with the Schemes.

Fees are set by the Schemes, but contractually and commercially offered to merchants by acquirers. Behavioural fees are influenced in turn by consumer behaviours and the mix (type/origin) of issued cards. Fees also depend in part on the scale and composition of the acquirer's portfolio.

Merchants may therefore not be able to directly influence fees, or the overall amount charged to them, even if they do see what they are. Simple pricing, blended, or 'all-in-one' rates , are typical in the market for smaller merchants,

Large Corporates on Interchange ++ pricing likely already have capacity and visibility of the scheme fees, and a real incentive and ability to influence behaviours.

Regulatory financial reporting

We don't believe this will benefit acquirers or merchants. The allocation of costs would be a complex exercise, with various different reasonable approaches open for the parties to adopt. In the CMA market investigation or retail banking, the CMA abandoned an attempt to measure UK retail bank profitability. This could consume a lot of PSR resource for minimal gain.

We would also be nervous that this would validate additional scheme fees for regulatory compliance for UK Acquirers.

Pricing methodology and governance

We believe that transparency and clarity around what scheme fees are is more important for competition than the method used to arrive at a fee. Pricing committees may be appropriate for UK retail banks who have consumer duty obligations, particularly in relation to vulnerable consumers. However, this type of supervision is very expensive to implement and complex to oversee.

This could also generate additional fees for UK acquirers, and become a significant drain on PSR resources for limited gain.

Open Finance Association

Open Finance Association (OFA) response to MR22/1.9: Market review of card scheme and processing fees interim report

29 July 2024

About OFA

The Open Finance Association (OFA) represents leading fintech companies focused on empowering consumers and businesses to access account data and make safe and secure payments through open APIs (application programming interfaces). We represent open finance providers and users of open finance. OFA members are responsible for the majority of all payment and data API calls initiated in the UK Open Banking ecosystem. We have brought millions of pounds of investment to the UK and employ thousands of highly skilled staff.

Our members are:

Armalytix	Plaid
Crezco	Token
finAPI	TrueLayer
GoCardless	Volt
MoneyHub	Worldline
Ordo	Yapily

Response to the Interim Report

OFA welcomes the PSR's market review of card scheme and processing fees interim report.

The primary, provisional conclusion *"that Mastercard and Visa do not face effective competitive constraints"* rings true to OFA members. Merchants have long reported rising costs for accepting card payments without commensurate improvements in service quality, which have been noted by our members' customers and highlighted in detail by merchant representatives through campaigns such as Axe the Card Tax.

The PSR's provisional remedies focus on improving price transparency, communication with customers and regulatory financial reporting. However, the PSR also highlights *"the* *importance of the PSR's work to unlock account-to-account payments, and Open Banking in particular, to facilitate greater choice for merchants for retail payments in the longer-term."* Our response focuses on this element.

The "*extent to which there are alternative payment methods in the UK, including whether they exert competitive constraints on the card schemes, and if there are barriers to entry and expansion for alternative provision"* was identified as a key consideration in the terms of reference for the market review. The interim report states that:

> *"Given the widespread use of Mastercard and Visa in the UK, their cards are must-take for merchants in the UK. As a consequence, Mastercard and Visa must be offered by all acquirers, which would otherwise face, as one acquirer put it, 'critical and existential losses'"*

OFA's view is that if the PSR is serious about mitigating this risk, it is imperative that it focuses on increasing competition. There are few greater incentives to a firm to improve its offer to customers than a competitor doing it better and/or more cheaply.

In the absence of a new card scheme emerging (which we do not think would guarantee a change in card scheme behaviour anyway), our strong contention is that competition should be driven by delivering on the account-to-account payments agenda, in particular by accelerating progress with open banking.

The PSR, in collaboration with the other members of the Joint Regulatory Oversight Committee (JROC), has made strides forward on open banking, but 6.5 years on since it started we are still a long way from delivering variable recurring payments that have the potential to enhance open banking's competitiveness with cards. Progress is being held back by a range of factors including, but not limited to, the lack of:

- **A long term regulatory framework (LTRF)** that includes a funding mechanism for the Future Entity replacing Open Banking Limited. The Government intends to address this through a new Digital Identity and Smart Data Bill, but this legislation has not even started its passage through Parliament yet and it may be years before its provisions have any bearing on industry.

  The OFA would urge the Government to move faster because, in the meantime, there is no secure funding for advancing the open banking agenda. Firms were recently asked by JROC to voluntarily contribute millions to an Interim Entity, with more voluntary funding calls expected between now and the LTRF being in place. As a result, JROC, Open Banking Limited and the open banking ecosystem as a whole are devoting significant attention to funding concerns. Solving this transitional funding issue would expedite the delivery of VRPs that can enhance open banking's competitiveness with cards

- **A sustainable, commercial model** which incentivises innovation, competition and ultimately a high quality, reliable experience for open banking users. Building a pricing model is complex and, as yet, OFA members have not seen a proposal that can command widespread industry support across the demand and supply side. It may be something that the PSR wishes to commission specialist consultancy support to assist and advise on; and

- **A singular, shared goal for open banking payments**. The ecosystem is diverse and complex spanning Government, regulators, market infrastructure bodies, banks, card schemes, payment initiation service providers (PISPs), customer representatives and many other stakeholders. Some ecosystem participants have reasons to prefer seeing the open banking agenda stall if not fail completely. There is a case for considering whether all parties should be equal in the process, or if some should be given observer status only, to reduce the number of speed bumps in discussions.

The interim report says that the PSR *"is considering what further action may be necessary to accelerate the introduction of structural competition from account-to-account payments"*. However, the provisional remedies do not mention any specific actions under consideration. OFA strongly encourages the PSR to develop its thinking and articulate what more it can and should do, as part of this market review, to unlock some of the issues above and ensure open banking's true potential can be reached as quickly as possible.

OFA would be happy to assist the market review team further if helpful.

Contact

Join us and be the voice of Open Finance in the EU and UK.

info@openfinanceassociation.org I www.openfinanceassociation.org

Revolut

Scheme and Processing Market Review
Interim Report

Revolut Response

1. Executive Summary

We do not object to the majority of the remedies proposed by the PSR in the Review. We have (i) recommendations on how some remedies (e.g. Transparency) should be implemented to increase effectiveness and (ii) concerns on how some remedies (e.g. Fee Simplification) may present a risk of unintended impacts which make them unwarranted. These are detailed in Section 2.

However, while we do not object to the majority of remedies, we maintain a major concern that overall we do not expect the proposed remedies (or other actions being taken by the PSR in parallel reviews on interchange) to significantly reduce costs for issuers, acquirers or merchants (notably small merchants) or increase competition or innovation more broadly in the UK's payments market.

The issues identified by the PSR as part of this Market Review (and others such as the Acquiring Market Review and Cross Border Interchange Market Review) will not be solved by increasing caps and controls on the two dominant schemes. As has been seen with previous rounds of regulation since 2015, interventions which do not fundamentally create more choice for merchants or consumers only serve to shift costs (e.g. from large merchants to consumers and small merchants) or create 'waterbed' effects where when some fees go down and others increase. Such substitution or neutralisation effects are becoming more likely as other actors become core to the card payment ecosystem (e.g. Digital Wallet Providers).

Other markets have taken a different approach, with many jurisdictions increasingly taking actions to create and scale alternatives to the [✂] card schemes. These can be private sector based (e.g. Bizum, IDEAL) or Government driven (e.g. UPI) or a mixture (e.g. PIX). We recognise the PSR, and JROC, is also undertaking work in a similar fashion with the pilot projects around [✂]. However, we believe the scope, speed and resource commitment to such initiatives will not affect real change.

As such, our core recommendation is to look to suspend or otherwise conclude the ongoing market reviews, adopting only remedies which clearly will increase choice and competition, and reallocate resources towards measures which [✂]. We believe there are multiple work streams which could be developed more fully, targeting both domestic and cross border payments (e.g. incentivising acceptance of non-card based solutions, acceleration of a clear and sustainable stablecoin regime, accelerating the Digital Pound project, UK participation in Project NEXUS, etc). We believe the way to solve the problems identified by the PSR is to drive forward competition and innovation at pace.

2. Response on the specific remedies proposed

2.1 Transparency

We support the proposals to increase transparency of fees to both acquirers and merchants, and would suggest similar steps are taken for issuers as well.

We do not have strong views on the taxonomy of fees, though we would lean towards enabling flexibility for the schemes to name and classify fees as they see fit to ensure new services which genuinely create new value or innovation can be introduced and communicated. Rather than the PSR focusing on setting a specific taxonomy (which may be relevant in 2024, but not in future years as services evolve) we believe general requirements for fees to be clearly named and classified (with objective tests to ensure this is delivered such as [✂] would be a more proportionate and future proofed remedy.

We have a strong view that to maximise the effect of these increased transparency measures, the information should be made available to issuers, acquirers and merchants in [✂] as opposed to mandating new online fee tables or information portals to be set up. Given the complexity of the current (and likely future) fee structures we believe it will be burdensome for smaller players to access and analyse such information through user based systems (i.e. where individuals must manually access, download, or interact with the data etc). Even for a company at the scale of Revolut, [✂]. A mandate on the main schemes to make detailed fee information accessible in a [✂] would enable firms to more effectively monitor and model changes to fees themselves, or potentially use third parties who could offer services to analyse and advise. We believe the data set made available should include all available fees, plus the actual fees incurred by the entity accessing the data set over the last 5 years to enabling modelling of fee developments). We would support building on the strong success of the UK's Open Banking framework, whose expansion is already being envisaged by JROC and the new Government, by including such scheme fee information as a data set which should be made available via a standard API developed and monitored by the Future Entity. We would welcome additional fees merchants face (e.g. interchange and acquirer fees) to also be also be made available via API, as we believe this will accelerate small merchants ability to understand what they are actually paying and how other services (e.g. RevPay or Open Banking payments) may offer better value.

2.2 Fee Simplification

We understand the rationale for the proposed remedy in relation to fee simplification. However we have concerns that any action to force the schemes to reduce the 'number' of fees may (i) [✂] and (ii) reduce the ability for the schemes to innovate and offer new services which may create value for end users. In addition, we do not see such a simplification method as necessarily leading to either a reduction in the total scheme fee costs incurred by issuers or acquirers. As described in our response on the transparency proposals, we believe enabling [✂] to fee information will enable issuers, acquirers and merchants to analyse fees in a more advanced fashion (e.g. grouping related fees together into categories as suits their business model).

As such we do not have a preference for either a trustee based model or any objective of reducing the number of fees by a certain percentage. Both approaches we believe carry risks, and will be less effective than the technology first approach we are proposing.

Related to fee simplification, we would request that the PSR mandates that for [✂].

2.3 SLAs

We do not have major issues with our interactions with either of the major schemes. We do not object to SLAs being set, but would want careful evaluation of the precedent such a remedy would be setting (e.g. would the same SLA be applied to providers of future payment schemes such as a BoE CBDC).

Also, mandating specific SLAs may mean the schemes reduce the quality of the responses they are providing. A more proportionate approach may be for the PSR to collate statistics on satisfaction with speed and quality of interactions from a representative sample of stakeholders on an annual basis, and publish them. Given the competitive dynamics between the schemes, and in the broader payments market, this may be a more future-proofed remedy which could be applied by the PSR on other PSO's in the future.

2.4 Notification & justification of new fees

We would support more structured processes and timelines when schemes [✂]. [✂].

2.5 Oversight mechanisms

We have no substantive views on the oversight mechanisms proposed by the PSR, seeing this as an issue primarily for the schemes and the PSR to resolve.

3. Alternative approaches to boost innovation and competition

We believe there are alternative ways to boost innovation and competition within payments, that do not require intervention over card scheme fees. We believe reducing or capping fees - be it card scheme fees, or cross-border interchange fees - can lead to a detrimental impact to encourage innovation and competition in two ways.

Firstly, [✂].

Secondly, by reducing or capping scheme fees, [✂]. The net impact is likely to create further challenges for new payment solution providers to gain market adoption and reach the scale required to offer solutions economically.

We believe that an alternative to reducing fees, such as allowing merchants to surcharge specific transactions, would enable merchants to recover the costs associated with specific transactions, whilst allowing existing card fees to be maintained to support innovation in alternative payment methods. [✂]. We believe a similar approach could be taken with regards to card payments in general, to give consumers and merchants the choice of selecting alternative payment methods to avoid card fees, thereby stimulating demand, competition and innovation in alternative payment solutions.

Scottish Grocers' Federation

Payments Systems Regulator MR22/1.9: Market review of card scheme and processing fees interim report – Consultation

E-mail: schemeandprocessingfees@psr.org.uk
Consultation website: https://www.psr.org.uk/publications/market-reviews/mr2219-market-review-of-card-scheme-and-processing-fees-interim-report/

July 2024

To whom it may concern,

The Scottish Grocers' Federation (SGF) is a trade association for the Scottish Convenience store sector. There are 5,171 convenience stores in Scotland, which includes all the major symbol groups, co-ops and convenience multiples in Scotland. SGF promotes responsible community retailing and works with key stakeholders to encourage a greater understanding of the contribution convenience retailers make to Scotland's communities. In addition, Convenience stores are known to be economic multipliers and an important source of local employment, providing over 49,000 jobs in Scotland (Scottish Local Shop Report 2023 (SLSR 23)).

Convenience stores trade across all locations in Scotland, providing a core grocery offer and expanding range of services in response to changing consumer demands close to where people live. According to our Scottish Local Shop Report 2023, the valued services provided by local shops include free-to-use cash machines (47%), cashback (70%), charged cash machines (19%), post office (27%), and Bill Payment services (76%).

It is also the case that 100% of stores offer cash as a payment method, confirming that cash is still an essential aspect of trade for the convenience sector. **While other methods of payment have become equally important and almost universal to the day-to-day operation of convenience stores. Including the provision of service for Debit Card (99%), Credit Card (98%), Contactless and Mobile payment (95%) and Card not Present transactions (46%)** (SLSR 23).

With the UK convenience sector expected to grow to £50.9bn by 2026, the sector is more relevant than ever to every type of customer and has key social benefits and is of key economic value to the economy. Over the last year, the UK convenience sector contributed over £10.6bn in GVA and over £9.1bn in taxes (SLSR 23).

However, many convenience stores are operating in an extremely challenging trading environment. Including issues such as the cost-of-living crisis, higher than usual energy prices, increased inflation & interest rates, external economic factors and an additional burden from government regulation.

PSR consultation - Market review of card scheme & processing fees (interim report)

SGF welcomes the work carried out by the PSR, as part of its responsibility to ensure a fair, transparent and modern payment system is in operation for businesses and customers across the UK, and we are grateful for the opportunity to respond to the interim report and proposed recommendations on card schemes and processing fees.

SGF is satisfied with much of the progress that has been made by the PSR throughout the review process and we broadly welcome the potential measures outlined in the report. Including the recognition of the concerns of business, the necessity to strengthen competition in the market and proposals to improve the transparency of information available to business customers.

While we do not hold precise figures on the proportion of customer transactions that use card payments, anecdotal evidence from feedback provided by our members would suggest that the majority of customer payments are now made using either a debit or credit card. With that proportion likely to increase in the coming years. Therefore, it is critical that convenience retailers are able to provide the payment service preferred by each individual customer, at minimal cost. Rather than be forced to direct customers to a certain cost-effective payment method, potentially impacting customer satisfaction

A primary concern for many of our members is the apparent and significant increase in costs in recent years. Largely due to the, often unexplained, rise in scheme and processing fees. Adding to the uncertainty and challenging financial circumstances being experienced by many convenience retailers.

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As highlighted in the report, this uncertainty is further exacerbated by the opaque nature and variety of schemes that are available. Making it difficult for retailers to assess which scheme is the best for their business, or indeed whether an alternative provider would be more suitable.

Indeed, many the service that many retailers use is determined by their EPOS provider. Limiting the available options as they have integrated credit card machines (EPOS providers may benefit from a bulk deal from credit card operators), which is a further complication in choosing a provider.

In addition, and as discussed during the PSR roundtable event on 16th July 2024, many convenience retails and small businesses are incredibly busy. With many owner/managers working more than 65 hours per week and one in five not taking any holidays throughout the year, in order to continue to operate and staff their stores.

This is alongside many other administrative demands on the time of shop owners. Such as exploring understanding the options for reducing energy costs, managing general bills across a range of service providers, accounting for variable taxes such as Non-Domestic Rates, and investing in planned long-term store improvements. As a result, many convenience retailers only have a limited amount of time available to ensure they are on the most appropriate card scheme for their needs.

As such, while SGF is not privy to the operational issues and costs accrued by service providers such as Mastercard and Visa, it is our view that the quality of service has not improved in line with the additional scheme and processing fees. According to our members, at least in some cases, the quality in service has declined. Therefore, we broadly welcome the PSR's proposed remedies in relation to reporting and pricing methodology and governance. However, we have no specific views on the details of the proposals as set out in 8.7-8.22 of the report, which seem to be adequate.

However, we strongly agree with proposals set out in sections 8.23-8.34, on mandatory consultation, improving transparency and reducing complexity. For the reasons set out above.

In particular, we support points 1-3 and point 6 outlined in section 8.32. We believe this will go a significant way to ensuring that our members understand the scheme they are signed up to and the options available to them. As noted in section 8.33. Alongside, the requirement to consult before fee changes are approved and the obligation to take feedback into account, as discussed in 8.24.

In addition, are cautiously optimistic about the benefits of a shared taxonomy. However, we are of the view that this should be accompanied by sufficient guidance for service users.

As an aside, SGF understands that energy companies across the UK now have a statutory obligation to ensure their domestic customers are on the appropriate tariff for their needs and to offer an alternative cheaper tariff is one exists. It is our view that card scheme providers should have a similar obligation to assess their customers' needs and advise if the scheme they are on is the appropriate one.

We trust that you will find our comments helpful and are happy to engage further with you on this important matter.

Yours sincerely,

[redacted]

222 Queensferry Road, Edinburgh, EH4 2BN

- SGF gives permission to PSR to publish its consultation response in full (name and organisation included) and to share this response internally as required.

- SGF is also content to be contacted again in the future, in relation to this consultation exercise.

Startup Coalition

STARTUP
COALITION

www.startupcoalition.io

Market review of card scheme and processing fees: Interim report
Startup Coalition response

<u>About the Startup Coalition:</u>

Startup Coalition (formerly Coadec) is the policy voice of tech startups and scaleups in the UK. Since 2010, Coadec has worked to engage on behalf of tech startups in public policy debates in the UK across a range of priority issues for startups including access to finance, immigration and skills, and technology regulation.

Startup Coalition is part of the Axe the Card Tax campaign, a coalition of trade bodies representing 240,000 businesses across the UK campaigning for measures to support payments innovation. The coalition is calling for actions to promote competition in the payments sector, to reduce the costs of accepting payments, and to ensure there is a level playing field that enables the UK's burgeoning Fintech sector to compete with incumbents.

General Remarks

We appreciate the opportunity to respond to the Payment Systems Regulator (PSR) consultation on the market review of card scheme and processing fees. As a firm deeply concerned with promoting competition and innovation within the payment processing industry, we have carefully reviewed the findings and provided insights and recommendations below.

The following response highlights the insufficient competitive constraints on Visa and Mastercard, which are proving detrimental to merchants, acquirers, and consumers.

The current market dynamics reveal a significant imbalance of power favouring Visa and Mastercard. These dominant card schemes have leveraged their market positions to impose substantial fee increases on the acquiring side, which in turn drives up costs for merchants and stifles competition. Our analysis supports the PSR's provisional findings that revenue from the acquiring side constitutes the majority of net scheme and processing fee revenue for both card schemes. This reliance on acquiring-side revenue underscores the need for regulatory interventions to address these imbalances and foster a more competitive environment.

We also express concerns about the high profitability driven by these fee increases, which are not matched by corresponding improvements in service quality, innovation, or value to customers. The "reverse competition" occurring within the market is particularly troubling, as it indicates that higher fees on the acquiring side are being used to compete for issuers. This highlights that the competitive nature of one side of the market is causing fees to rise on the acquiring side of the market. This practice exacerbates the disparity between the costs faced by acquirers and the incentives received by issuers, leading to a double harm to UK payment users.

We advocate for regulatory measures that promote price rebalancing, enhance transparency, incentivise innovation, and encourage competition. By addressing the issues identified in the PSR's provisional findings, we can create a more equitable market that supports innovation and delivers better outcomes for all participants. Startup Coalition remains committed to supporting initiatives that drive competition, reduce costs, and enable the growth of new and innovative payment solutions.

Question 1: Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?

The PSR's background chapter is highly useful in providing the context for how the card systems work within the UK. Each contextual element of the card system within the UK has an impact on how the market operates, incentives for both Visa and Mastercard, costs for the overall merchant, and the dynamics of competition within the market.

Analysis of the behaviour of Visa and Mastercard in the card market is complicated by the sheer scale of their operations, and diversity of contexts in which they operate. This is additionally why, when considering remedies for the market, the PSR must develop a variety of remedies for the market.

Question 2: Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side?

We agree with the PSR's analysis that Visa and Mastercard are not subject to effective competitive constraints on the acquiring side. The rest of the answers provided in our consultation response will provide more precise detail to the different contexts in which there is a lack of competitive constraints, and will also provide analysis as to why the lack of competitive constraints have led to increased fees. Further, the profits from the 'competitive' issuing side of the business have continually allowed Visa and Mastercard to dominate the acquiring market, enabling long-term network effects and establishing a high barrier of entry to new businesses.

Like the PSR, we disagree with Mastercard's argument that the threat of alternative payment methods could impose a competitive constraint. In order to comprise a competitive constraint any alternative payment method would have to be established within the UK market, compete with Visa and Mastercard's 'must take' status and would have to have significant steering from merchants and the regulators in order to be a viable and successful competitor to Visa and Mastercard. The barriers to achieving this level of scale are insurmountably high today.

Question 3: Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process?

We appreciate the PSR's thorough analysis and provisional findings regarding the constraints that consumer steering can impose on Mastercard and Visa.

It is true that the number of effective alternatives to Visa and Mastercard is currently limited as a result of the entrenched market positions and network effects that these two companies enjoy. The dominance of Visa and Mastercard creates a high barrier to entry for new and potentially innovative payment methods.

The analysis rightly points out that consumer steering could introduce friction in the payment process. However, without proper incentives and education, merchants are unlikely to be able to consistently steer consumers to alternative forms of payment. Similarly, the 'must take' status of Visa and Mastercard will continually provide a countervailing steer, even if not directed by merchants, towards consumers utilising the dominant forms of payment. New instances of steering, such as loyalty programs, discounts, or other rewards for using alternative methods could be beneficial. However, it is unclear that Visa and Mastercard would be particularly impacted without a strong market competitor to them.

While we acknowledge the current limitations in consumer steering, we believe that with targeted regulatory actions and support for innovation, it could be possible to significantly enhance the competitive constraints on Visa and Mastercard. However, this steering cannot come from merchants alone, instead strong regulatory action is required in order to enable steering to occur within the market.

Question 4: Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees?

We agree with the PSR's analysis and provisional findings regarding the limited competitive constraint that decisions by operators of wallets impose on Mastercard and Visa's fees.

The current market dynamics show that digital wallet operators have limited leverage over the fees set by Mastercard and Visa. This is due to the entrenched market positions and widespread acceptance of these card schemes, which digital wallets often rely on for their transaction processing. While digital wallets are growing in popularity they still depend heavily on the underlying card networks in order to facilitate transactions. This dependency means that the wallet operators are restricted in their ability to meaningfully exert pressure on the fee structures of the dominant card schemes.

There is potential for digital wallets to increase competition in the future; for instance, wallets that support direct bank transfers or new forms of digital currency can bypass traditional card networks entirely. However, digital wallets do not offer a short-term solution to the lack of competitive constraints to the card networks, and regulatory, or competitive, support for digital wallets would be vital for ensuring that it can compete with the dominance of card usage in the UK.

Most wallet operators (e.g. Apple Pay, Google Wallet) still rely on underlying Mastercard and Visa infrastructure for transactions. Therefore, they are not alternative payment systems but rather different interfaces for the same card networks.

Wallet operators' dependence on Mastercard and Visa infrastructure means that they do not provide a truly distinct competitive pressure. Even though they might enhance user experience or provide additional security features, they still process transactions through Mastercard and Visa networks. As a result, these wallets do not disrupt the fee structures imposed by these dominant card schemes. Thus, wallet operators' decisions do not significantly impact the competitive dynamics around the fee structures of Mastercard and Visa.

However, as will be discussed later, regulatory frameworks should encourage diversification of payment methods supported by digital wallets and other payment alternatives. This includes fostering an environment where alternative payment methods can thrive and compete with traditional card schemes. For digital wallets, the key requirement for supporting their development is to reduce the barriers to entry for new wallet operators, both those who own the wallets but also direct support for payment alternatives being viable within existing digital wallets. If digital wallets were expanded to include alternative forms of payment then they would enable a similar level of convenience for the consumer and would provide an alternative to Visa and Mastercard. Further, increasing consumer preference for digital wallets and alternative payment methods can create indirect competitive pressure on Mastercard and Visa and could be an initiative that the PSR looks to support.

We have seen examples of the traditional payment models disrupted in other countries. While this will be discussed in more detail later there are two primary examples where the card networks have been successfully interrupted. This either has occurred due to explicit, continuous and direct regulatory intervention supporting payment alternatives, such as mobile money and real-time payment systems, to enable competition within the market. Alternatively, in both the US and in Australia we have seen direct regulatory intervention to the payment networks to ensure that pricing remains acceptable.

In conclusion, while we acknowledge the current limitations in the competitive influence of digital wallet operators, we believe that with appropriate regulatory support and market incentives, digital wallets could become a competitive force and that a priority of any intervention from the PSR, or other regulatory body, to the card market should focus on ensuring that innovative payment alternatives are able to succeed. Encouraging innovation and reducing reliance on traditional card networks can pave the way for a more competitive and dynamic payment ecosystem.

Question 5: Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK?

We agree with the PSR's view that alternatives available in the UK do not provide an effective competitive constraint on decisions made by Visa and Mastercard in the supply of core processing services, and that no alternative suppliers of core processing services currently operate in the UK. We believe there are several additional considerations that underscore the need for enhanced regulatory and market interventions. Here are our views on the two specific findings:

i) Alternatives available to acquirers:

We agree that, presently, the alternatives available to acquirers in the UK do not provide an effective competitive constraint on Mastercard and Visa. The core processing services market is highly concentrated, with these two companies having a significant market share and influence. Further, the issue is compounded due to the high barriers of entry and switching costs for acquirers which often prevent new entrants from establishing themselves as viable alternatives. These barriers include the need for extensive technological infrastructure, regulatory compliance, and established relationships with a broad network of merchants. In the existing market conditions not only is there a lack of alternatives to Visa and Mastercard in the supply of core processing services, but the market is highly unlikely to ever have a viable alternative without significant regulatory intervention. Additionally, most merchants need to accept both Mastercard and Visa, as a 'must take' status, in order to serve their customers adequately, further entrenching the market power of these two companies.

ii) Lack of alternative suppliers:

The absence of alternative suppliers of core processing services in the UK is a significant concern. This lack of competition allows Mastercard and Visa to maintain their market dominance without significant pressure to innovate or reduce fees. Other markets have seen success in promoting competition through regulatory intervention and support. For instance, the introduction of real-time payment systems in countries like Australia and India has spurred competition and reduced reliance on traditional card networks.

Question 6: Do you have any views on our analysis and provisional findings that:

(i) **Acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services**

We agree that acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services. These services often include critical components such as fraud detection, chargeback management, and security features, which are essential for the smooth operation of payment processing. The dominance of Mastercard and Visa in the market means that most acquirers and merchants have little choice but to use these optional services if they wish to remain competitive and provide a seamless payment experience to their customers. Further, we agree that there is often an obfuscation on what services are considered optional for many merchants. The technicality of many of the optional services, and the technicality of the process to decline optional services, has often meant that merchants effectively treat the optional services as mandatory. Fee rises in either mandatory or optional services should be considered when we consider the overall increases in the fees that merchants are paying.

(ii) **Acquirers and merchants face significant implications if they do not use these optional services;**

The significant implications of not using these optional services further highlight the dependency on Mastercard and Visa. For example, opting out of certain fraud detection services could expose merchants to higher risks of fraudulent transactions, potentially leading to increased chargebacks and financial losses. Additionally, not utilising the security features provided by these optional services might result in non-compliance with industry standards, which could further impact the merchant's operations and reputation. However, the asymmetrical power dynamic between the merchant and the card networks, in regards to information, often means that merchants do not know or understand precisely what these optional services are providing.

(iii) **Acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services.**

The limited countervailing buyer power of acquirers and merchants when negotiating prices for these optional services is another critical issue. The necessity of these services, combined with the lack of viable alternatives, puts acquirers and merchants in a weak bargaining position. Mastercard and Visa can leverage their market power to set prices without facing significant pushback, leading to higher costs for acquirers and merchants. Whilst some of the larger merchants may be able to negotiate on their pricing for optional, or even mandatory, services, it is smaller merchants who are often forced to pay the highest prices for any and all services provided by the card networks. This situation underscores the need for regulatory intervention to ensure fair pricing and to encourage competition and innovation in the market.

Question 7: Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services.

There are a few additional competitive constraints that may impact Mastercard and Visa in the supply of optional services which deserve consideration:

<u>Emerging technologies:</u> While emerging technologies could, theoretically, provide competition to Visa and Mastercard, they are both unlikely to have an impact in the short term and would require regulatory intervention in order to both develop and sustain the emerging technologies as viable competitors within the existing market conditions. This is, as we have stated in previous questions, due to the ability of Visa and Mastercard's 'must take' status and their ability to reduce fees on the issuing side of the market due to their fees on the acquiring side of the market.

The development and adoption of blockchain technology and cryptocurrencies present potential competitive constraints. Decentralised payment systems can offer alternative processing and optional services that bypass traditional card networks, potentially reducing Mastercard and Visa market dominance.

Similarly, the rise of open banking initiatives facilitates direct bank-to-bank transactions, and could provide a potential alternative to card network-based optional services. These initiatives can encourage innovation and competition in payment services, challenging Mastercard and Visa's fee structures.

However, neither blockchain technologies, nor Open Banking, are suitably established, both as technologies but also more pertinently with both consumers and merchants, to adequately provide competition to Visa and Mastercard.

Question 8: Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services).

No response.

Question 9: Do you have any views on the optional services that we have not focused on in our analysis (in particular those presented in Annex A to Annex 4)? If yes, please explain what these additional optional services are and what competition concerns you have around the supply of these services.

We have no views on the optional services that have not been focused on in the existing PSR analysis.

Question 10: Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to competitive constraints on the issuing side?

We acknowledge the PSR's analysis and provisional finding that Mastercard and Visa face competitive constraints on the issuing side. However, we believe that these constraints might not be as significant as they appear for several reasons.

Despite the presence of alternative card schemes and payment methods (such as American Express, Discover, etc), Mastercard and Visa's extensive acceptance network and brand recognition create strong network effects that reinforce their market dominance on the issuing side. Often what this means is that while there are competitive constraints on the issuing side of the business, Visa and Mastercard are competing within each other for business as opposed to any third party competitor.

This competition between Mastercard and Visa results in, as the PSR states, “high incentive payments and rebates” to issuers, in some cases “more than totally offsetting the fees charged to issuers”.[1] Despite the competitive constraints on the issuing side, these competitive constraints overall serve to harm the wider payments market, as Visa and Mastercard compete to provide incentives to issuers they raise fees on the acquiring side of the business in order to offset these costs. We believe this is ‘reverse competition’ where Visa and Mastercard compete to raise overall fee levels in order to subsidise and compete on the issuing side of the business. We also believe that a similar form of competition may be happening around Interchange Fees as described by the IFR Impact Assessment.[2]

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[1] PSR Market review of card scheme and processing fees, Interim report, page 7

[2] European Commission, European Commission Staff Working Document: Impact Assessment accompanying Volume 12, 2013

Thus, competition between Mastercard and Visa (and any alternatives) ultimately harms users of payment systems, due to it directly leading to higher overall fees for users. These two markets, the issuing side and the acquiring side, are intrinsically linked. Not only as one side of the market enables, and requires, fees to rise on the other side of the market but the profits from the acquiring side of the business allow Visa and Mastercard to create significant barriers to entry by driving down the costs to businesses on the issuing side of the business.

These are exclusionary and predatory business practices. The effect of this is to exclude potentially more efficient and/or more innovative competitors from the market, i.e. alternative payment methods such as Open Banking payments, or even cash.

Such differences in the market dynamics between the issuing and acquiring sides of card payment systems, and multi-sided/platform markets generally, has been long understood. It was first described by economist Professor Mark Armstrong, namely:

> "*There are many examples of markets in which two or more groups of agents interact via intermediaries or 'platforms.' […] such […as]: credit cards […]*
> *When an agent [such as cardholder, merchant, issuer, or acquirer] chooses to use only one platform, it has become common to say the agent is 'single-homing.' When an agent uses several platforms, she is said to 'multi-home.' It makes a significant difference to outcomes whether groups single-home or multi-home. In broad terms, there are three cases to consider: (i) both groups single-home, (ii) one group single-homes while the other multi-homes, and (iii) both groups multi-home. If interacting with the other side is the primary reason for an agent to join a platform, then we might not expect case (iii) [or case (i)] to be very common […].*
>
> *By contrast, there are several important markets that resemble configuration (ii), […] termed 'competitive bottlenecks.' Here, if it wishes to interact with an agent on the single-homing side, the multi-homing side has no choice but to deal with that agent's chosen platform. Thus, platforms have monopoly power over providing access to their single-homing customers for the multi-homing side. This monopoly power naturally leads to high prices being charged to the multi-homing side […] A competitive bottleneck is present […]*
>
> *By contrast, platforms do have to compete for the single-homing agents, and high profits generated from the multi-homing side are to a large extent passed on to the single-homing side in the form of low prices (or even zero [or negative] prices). […]*
>
> *[It] does not make sense [therefore] to speak of the competitiveness of 'the market.' There are two markets: the market for single-homing agents which is, to a greater or lesser extent, competitive, and a market for multi-homing agents where each platform holds a local monopoly. The excessive prices faced by the multi-homing side do not necessarily result in excess profits for platforms, since platforms might be forced by competitive pressure to transfer their monopoly revenues to the single-homing agents. Rather, the market failure is a <u>suboptimal balance</u> of prices to the two sides of the market.*" [emphasis added] [3]

[3] https://eur-lex.europa.eu/resource.html?uri=cellar:906ed6d3-f509-11e2-a22e-01aa75ed71a1.0001.04/DOC_1&format=PDF

This paper has had considerable influence on competition law and economic regulation, especially among UK and EU regulators and courts.[6] Firstly, the European Commission's 2007 prohibition decision against Mastercard's cross-border interchange fees defined separate *issuing* and *acquiring* markets, on grounds that "*there are two groups of consumers in the payment cards industry: cardholders and merchants*" each with different characteristics.[4]

The PSR is considering the competitive constraints within the issuing side of the business and must ultimately consider the market impact that is caused on the acquiring side, and vice versa. Competition in the issuing side of the market drives fees up, on the acquiring side, whilst the profits from the issuing side enables Visa and Mastercard to enact predatory business practices to prevent alternative payments or competitors from succeeding.

Question 11: Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years?

Based on conversations with retail trade bodies we have had, as part of the Axe the Card Tax campaign, we agree with the analysis and provisional finding that revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both Mastercard and Visa. This observation highlights several key points about the market dynamics and the pricing strategies of these card schemes.

The substantial revenue derived from the acquiring side indicates that Mastercard and Visa place significant emphasis on fees charged to acquirers. This revenue model relies on utilising the fees charged on the acquiring side of the market to subsidise competition on the issuing side of the business as stated earlier.

Question 12: Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years?

We agree with the analysis and provisional finding that the average scheme and processing fees paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years.

[4] European Commission, MasterCard I Case AT.34579 Prohibition Decision, 2007.

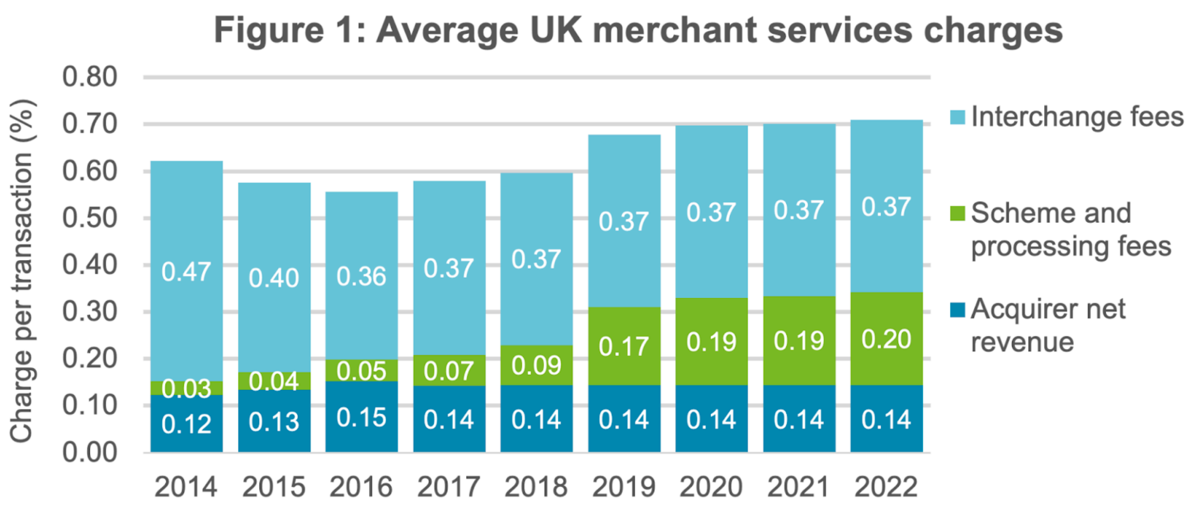

Figure 1: Average MSC as a percentage of card turnover fees split by interchange fees, scheme fees and acquirer net revenue[5]

Data we have provided to the PSR suggests that scheme and processing fees may have gone up 600% since 2014 as highlighted in an 'Axe the Card Tax' report we released in 2023.[6] The data, collected from the PSR's own data as well as data collected by bodies such as the BRC highlight the significant increase in the average scheme and processing fees paid to Visa and Mastercard via acquirers.[7] As stated in our response to question 10, we believe that the main purpose behind these fee increases has been as a means for Visa and Mastercard to compete on the issuing side of the business. However, these fees also point to the sheer market dominance of Visa and Mastercard. The lack of viable payment alternatives allows Visa and Mastercard to face little competitive constraints in the raising of fees and the profitability analysis highlights that even if Visa and Mastercard weren't competing, on the issuing side of the market, these fees would likely increase regardless.

Higher scheme and processing fees directly affect acquirers' cost structures, which are often passed on to merchants in the form of increased fees or surcharges. This burden can be particularly challenging for small and medium-sized merchants who operate with tighter profit margins.

Question 13: Do you have any views on the extent to which changes in average fee levels in recent years have been accompanied by commensurate changes in:

(i) The value to customers of the services provided by Mastercard and Visa?

We agree with the PSR that the increase in average fee levels has not been accompanied by a commensurate increase in value to customers. While Mastercard and Visa have introduced some new services and enhancements, these do not justify the substantial fee hikes. Instead, as previously stated the main purpose of the fee hikes was to enable Visa

[5] https://www.psr.org.uk/media/p1tlg0iw/psr-card-acquiring-market-review-final-report-november-2021.pdf
[6] https://coadec.com/wp-content/uploads/2023/04/Axe-the-Card-Tax-Report-FOR-RELEASE.pdf
[7] https://brc.org.uk/media/681273/payment-survey-2022_final.pdf

and Mastercard to compete on the issuing side of their business as a form of reverse competition. The core services provided — such as transaction processing and fraud prevention — have seen incremental improvements, but these enhancements are part of the ongoing technological advancements and do not represent a proportional increase in value relative to the higher fees. In fact we believe that greater value would have been offered to customers if Visa and Mastercard had sufficient competition within the market, or if alternative payment methods were widely utilised.

(ii) The quality of service provided by Mastercard and Visa?

We agree with the PSR that the quality of service provided by Mastercard and Visa has generally remained consistent or improved slightly due to technological advancements.[8] However, these improvements in service quality are expected in the normal course of business and do not justify the significant fee increases. For instance, improvements in transaction speed, security features, and customer support are expected as part of maintaining competitive service levels in the market. The fee increases appear to be more a result of market power than substantial enhancements in service quality. In fact the quality of service from Visa and Mastercard, due to their dominance, often means that businesses treat them as a utility more than a service that they are able to choose between.

(iii) Innovation by Mastercard and Visa?

Mastercard and Visa have introduced innovations in digital payments, security measures, and data analytics. However, these innovations are part of the expected evolution of payment technologies and do not proportionately match the fee increases, or at least any innovations are continually met with additional fee increases.[9] Many of these innovations are also driven by competitive pressures from fintech companies and regulatory requirements rather than voluntary enhancements by the card schemes. The fee increases do not seem to be directly tied to specific, high-cost innovations that would justify such hikes. Once again we believe that greater innovation within the market would have been achieved if these innovative alternative payment methods are supported via regulatory intervention within the market.

(iv) Aspects of the transaction mix or characteristics of acquirers or merchants that we may not have fully captured in our econometric analysis (see Annex 7)?

The econometric analysis may not fully capture the impact of changes in the transaction mix, such as the shift towards e-commerce and contactless payments, which might have different cost structures. Additionally, the analysis might not consider the varying bargaining power of different acquirers and merchants. Large merchants might negotiate better terms, while small and medium-sized enterprises (SMEs) face higher relative costs. Furthermore, the analysis may not account for sector-specific differences, where certain industries might be subject to higher fees due to perceived risk or higher incidence of chargebacks.

[8] PSR Market review of card scheme and processing fees, Interim report, page 94
[9] PSR Market review of card scheme and processing fees, Interim report, page 95

Question 14: Do you have any views on our analysis and provisional findings in our profitability analysis?

(i) Are there any factors that we have not covered in our report that may provide information on the relative profitability of Mastercard's and Visa's UK operations compared to their global and European operations? (ii) Are there any other comparators that have greater similarity to Mastercard's and Visa's UK operations than those that we have identified in our report?

No response.

Question 15: Do you have any views on our analysis and conclusion that issuers have a generally positive experience regarding the information they receive from Mastercard and Visa (such that they are able to access, assess and act on that information)?

No response.

Question 16: Do you have any views on our analysis and assessment of the materiality of issues experienced by acquirers?

No response.

Question 17: Do you have any views on our analysis and assessment of our analysis in respect of behavioural fees, and acquirers' ability to pass these fees on to merchants (as set out in Table 4)? If so, do you have any experience and/or views how widespread the issues identified are and their underlying cause or causes?

Question 18: Please provide your views on the prevalence (or otherwise) of acquirers having to purchase optional services to identify merchants incurring behavioural fees.

We believe it is useful to answer both question 17 and question 18 together.

Behavioural fees are charges imposed by card schemes such as Mastercard and Visa on acquirers based on the transactional behaviour of their merchant clients. These can include fees for non-compliance with certain network rules, penalties for excessive chargebacks, or other behaviours deemed undesirable by the card schemes.

We believe that behavioural fees add to the operational costs for acquirers, who often have no choice but to comply with the rules set by Mastercard and Visa. These costs can be significant, particularly for acquirers managing a diverse portfolio of merchants with varying levels of compliance. Further, acquirers typically pass these fees on to merchants, which can lead to increased costs for merchants. This pass-through can strain the relationship between acquirers and merchants, especially smaller merchants who may not fully understand the reasons for these additional charges. As the PSR correctly identifies, often the acquirers themselves lack the information on precisely which merchants are causing the behavioural fees to rise, leading to a rise in the overall costs of the entire merchant base

The issues identified in the analysis by the PSR are widespread due to several underlying causes: 1) The rules and requirements set by Mastercard and Visa can be complex and challenging for merchants to understand and comply with. This complexity increases the likelihood of incurring behavioural fees, particularly for smaller merchants with limited resources to manage compliance effectively; 2) The lack of transparency means that merchants often have limited visibility into the reasons behind the behavioural fees imposed on them. This lack of transparency can lead to frustration and a perception of unfairness, further complicating the acquirer-merchant relationship. As has often been described throughout this consultation response the pernicious impact of Visa and Mastercard's dominant market positions enable them to set and enforce these behavioural fees with little resistance. Acquirers and merchants have limited leverage to negotiate or contest these fees, exacerbating the issue.

We believe that there may be significant issues even if behavioural fees are made less opaque, as proposed by the PSR. Firstly, it shouldn't solely be up to the two dominant market players, Visa and Mastercard, to dictate the behaviour of the payments ecosystem, especially when these behavioural fees can change quickly and both merchants and acquirers have a difficult time in preparing for any new behavioural fees. Additionally, the sheer scale of those who experienced difficulties in understanding behavioural fees, 90% of acquirers, suggests a systemic failure within the market for behavioural fees.[10] While we agree that shaping the behaviour of merchants and acquirers via fees can be beneficial for the overall payments market, we believe this must be guided by a set of principles from the regulator themselves and thus that the behavioural fees market must be heavily regulated. This would enable much greater transparency for the merchants and would hold Visa and Mastercard to a much higher standard for their behavioural fees.

Question 19: Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers or merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.

In evaluating the non-price outcomes experienced by issuers, acquirers, and merchants, it's essential to consider various qualitative aspects that impact their operations and overall market dynamics.

As the PSR describes when discussing the impact of behavioural fees, many merchants and acquirers have found communication with either Visa and Mastercard difficult or slow. This is especially damaging when things such as new behavioural fees are introduced, with clarifications around new fees often not being responded to until after the deadline of the new behavioural fee.

Similarly, the impact of innovation and technological innovation within the payments industry is a non-price outcome that is directly experienced by issuers, acquirers and merchants. Merchants and acquirers may face restrictions in customising payment solutions due to rigid frameworks imposed by Mastercard and Visa and the lack of payment alternatives. Even where payment alternatives are available the 'must take' status of Visa and Mastercard enables Visa and Mastercard to operate with predatory pricing practices to any alternatives

[10] PSR Interim report page 133

within the market. We believe that the most value, innovation and efficiency is achieved where the market is designed to enable retailers to test, trial, switch between, and offer a variety of ways to pay.

While Visa and Mastercard state that there have been significant increases to innovation within the payments market we believe that this overstates the extent of innovation in the sector. All recent market trends and technological innovation have in practice been marginal or just meant new ways to pay by card – not alternative ways to pay that are not by card. While Open Banking has reached notable heights, with the number of users reaching 10m, this still is minimal in terms when compared to the 23 billion payments made using debit cards in 2023.[11] This has limited the scope of innovation that has occurred within the payments market. Further, Visa and Mastercard do compete to be more innovative than the other, – as almost all Mastercard and Visa technical innovation are developed jointly, i.e. as part of the EMVCo global payment systems standards setting body.

A core PSR's objective is "to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems". Importantly, this objective is not to promote the development and innovation of *a payment system*, but instead is the development of and innovation in payment systems themselves. The current lack of competitive constraints to Visa and Mastercard, and the impact of the asymmetrical pricing between the issuing and acquiring side of the business have directly impacted the ability for alternative payment systems to compete with the card schemes. This has directly impacted the ability for alternative payment systems to develop or innovate.

Conclusion to questions 1-19:

For the most part we agree with the PSR's analysis, as laid out in the first half of this consultation response. We believe that the current market conditions reveal insufficient competitive constraints on Visa and Mastercard, which stifle competition and innovation in the payment processing industry.

The existing market dynamics favour these dominant card schemes at the expense of merchants, acquirers, and ultimately consumers. It is again worth noting that it isn't simply the size, or network effects, of the card networks that enables them to dominate the market, but instead the organisation of the multi-sided market that requires Visa and Mastercard to compete on the issuing side that forces fees to increase over time. By competing on the issuing side of the business, Visa and Mastercard are continually incentivised to compete to reduce the costs, offering low and sometimes negative prices on the issuing side of the business. To offset these costs Visa and Mastercard have often increased the scheme and processing costs on the acquiring side of the business. This explains the PSR's findings that 75% of the revenue for scheme and processing fees comes from the acquiring side of the business.[12]

[11] https://www.ukfinance.org.uk/news-and-insight/press-release/half-all-payments-now-made-using-debit-cards

[12] PSR Market review of card scheme and processing fees, Interim report, page 101

Thus the charging of ever higher prices to acquirers is required in order for Visa and Mastercard to compete on the issuing side of the market in order to compete against each other for business. This is a fundamental aspect of the market and may well require a bespoke regulatory intervention into the market in order to fix.

Even if the PSR's profitability analysis shows that Visa and Mastercard haven't increased their profits from scheme and processing fees, this situation would still be problematic. The competition between Visa and Mastercard on the issuing side may be a zero-sum game, with business shifting between them. However, the rising fees on the acquiring side, used to fund this competition, are still unacceptable for many acquirers and merchants.

The issue persists because market forces push Visa and Mastercard to continually increase fees on the acquiring side to remain competitive on the issuing side, even if they're not profiting more from these increases. Therefore, while the profitability analysis is valuable, it shouldn't be the only factor the PSR considers when determining if fee increases on the acquiring side are justified.

Question 20: What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think the PSR should prioritise implementing?

We do not believe that any of the proposed PSR remedies will be sufficient to address the harms identified within the interim report.

Startup Coalition believes that a far more comprehensive framework is required to establish and review market remedies. The establishment of this framework for remedies should be prioritised. The remedy framework will enable the PSR to establish timeframes for different market remedies that have been suggested and will also enable the PSR to engage with stakeholders throughout the remedy process.

While the PSR has stated that it will look to consult on remedies within the second half of 2024 we believe that the work on remedies should be expedited. As is highlighted in the framework below, the proposed PSR remedies will be beneficial for enabling greater market transparency but they will do little to reduce fees quickly, or provide the initial steps towards enhancing market competition.

We also believe that under the following remedy framework that there are no potential remedy actions that should not be considered at this time.

<u>Remedy framework:</u>

The PSR should employ a comprehensive strategy to analyse the impact of implemented remedies over the short, medium, and long-term. This strategic framework will facilitate the assessment of the effectiveness of any proposed solutions in achieving the desired outcomes, such as promoting competition, enhancing transparency, and supporting innovation in the payment processing market. Further a specific framework for the market will enable the PSR to not only monitor the success of any given remedy but also allow other regulators, especially in regards to the Open Banking and JROC process and the new proposed Regulatory Innovation Office, to support the ongoing work of the PSR.

We propose the following framework for the PSR based on the remedies already proposed within the scheme and processing fees interim report. The framework is based around fulfilling the PSR's key objectives:

- to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them
- to promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers
- to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems

Short-Term (0-1 years)

Objectives:

- Immediate reduction in excessive fees.
- Increased market transparency.
- Initial steps toward enhanced competition.

Key Metrics:

- Fee Reduction:
    - Changes in average scheme and processing fees charged by Visa and Mastercard.
    - Comparison of fee levels pre- and post-implementation.
- Market Transparency:
    - Availability and accessibility of detailed fee structures.
    - Compliance with new transparency requirements.
    - Feedback from market participants on the clarity of pricing and fee disclosures.
- Initial Market Responses:
    - Support of either new market participants or alternative payment systems.
    - Short-term competitive behaviours among the card schemes.
- Stakeholder Feedback:
    - Surveys and interviews with merchants, acquirers, and consumers regarding the perceived impact of remedies.
    - Immediate changes in merchant and acquirer satisfaction levels.

While we expect the entry of new market participants, or of alternative payment systems, to take time, it is vital that the PSR establishes a framework for supporting new market entrants and alternative payment systems.

Medium-Term (1 year - 2 years)

Objectives:

- Sustainable competition in the market.

- Reduction of market dominance by Visa and Mastercard.
- Enhanced service quality and innovation.

Key Metrics:

- Sustained Fee Levels:
  - Ongoing monitoring of scheme and processing fees.
  - Stability and further reduction in fee levels over time.
- Market Share Distribution:
  - Changes in the market shares of Visa, Mastercard, and emerging competitors.
  - Growth rates of alternative payment systems and services.
- **Regulatory Compliance:**
  - Continued adherence to transparency and non-discrimination requirements.
  - Effectiveness of regulatory oversight and enforcement mechanisms.
- **Economic Impact:**
  - Impact on the overall cost of payment acceptance for merchants.
  - Effects on consumer prices and spending behaviours.

Within this timeframe the PSR must establish a mechanism for rebalancing the pricing structure within the market. Specifically a mechanism for balancing the competitive constraints on the issuing side of the market that are causing price increases on the non-competitive acquiring side of the market. While we believe there are multiple mechanisms that might achieve this outcome it will be vital for the PSR to both consider all possible mechanisms for rebalancing the market whilst establishing a firm framework to monitor the success of any given mechanism.

Long-term (2+ years)

Objectives:

- Establishment of a competitive, innovative, and transparent payment ecosystem.
- Long-term benefits for all market participants, including consumers.

Key Metrics:

- Market Competitiveness:
  - Level of competition in the market, with multiple viable players.
  - Market entry and exit rates for payment service providers.
- Innovation and Technological Advancements:
  - Long-term trends in payment technology innovation.
  - Adoption rates of new technologies and services by merchants and consumers.
- Consumer and Merchant Benefits:
  - Long-term reductions in transaction costs.
  - Enhanced payment options and improved user experience.
- Regulatory Effectiveness:
  - Ongoing relevance and effectiveness of regulatory frameworks.
  - Adaptability of regulations to evolving market conditions and technologies.

    - A wider consideration of the wider payments process including impacts of Interchange fees on the market to be considered.
- Sustainable Market Practices:
    - Ethical and fair market practices adopted by all participants.
    - Long-term trust and reliability in the payment processing market.

<u>Implementation and Monitoring:</u>

- Data Collection: Establish a robust data collection mechanism to gather relevant metrics continuously.
- Periodic Reviews: Conduct regular reviews (e.g., annual or biennial) to assess progress against the defined metrics.
- Stakeholder Engagement: Engage with stakeholders through consultations, surveys, and focus groups to gather qualitative insights.
- Adjustments and Iterations: Adjust remedies and regulatory approaches based on findings from periodic reviews and stakeholder feedback.

We believe that this framework is consistent with the PSR's regulatory principles and payment systems objectives. The framework will also enable the PSR to be consistent with FSBRA and provide a framework for the PSR to decide whether to impose specific directions or requirements in the context of a market review.

Question 21: Are any transitional provisions needed?

A 'Price Rebalancing' remedy would be useful as a transitional or interim remedy to address the significant issues identified in the PSR interim report. This remedy aims to tackle the core problems of ineffective competitive constraints and the growing pricing asymmetries in the card payment market.

At its heart, this remedy would require a regulatory rule that would require the average card scheme net pricing to acquirers to be no greater than the average net pricing to issuers. By implementing this rule, the PSR would effectively impose a competitive constraint on the acquiring side of the Mastercard and Visa platforms while simultaneously limiting the extent of asymmetric pricing between the acquiring and issuing sides.

This remedy wouldn't require the same amount of information, such as a profitability analysis or UK specific pricing models, as a price-cap or other solutions proposed by the PSR. This remedy would provide a short-term solution to the consistent fee rises that we have seen while enabling the PSR to build more comprehensive long-term solutions. This approach would allow for immediate action to address the market imbalances while providing flexibility for future adjustments.

While these other remedies, such as Regulatory Financial Reporting and Transparency measures, are valuable, they are insufficient on their own to address the substantial harms identified in the market, especially in the short-term. However, these information-based remedies would play a crucial supporting role in the effective implementation and enforcement of the 'Price Rebalancing' remedy going forward.

This remedy aims to create a more balanced and competitive environment in the card payment market. By directly addressing the core issue of pricing imbalances between the acquiring and issuing sides of the platforms, it has the potential to foster fairer competition and ultimately benefit all stakeholders in the card payment ecosystem.

Question 22: Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

Yes, considering a regulatory financial report remedy would be beneficial for several reasons.

A regulatory financial report remedy would ensure transparency in the operations of card schemes like Visa and Mastercard. This transparency is crucial for identifying and addressing any unjustified fee increases or anti-competitive practices, especially given the challenges that the PSR encountered in looking at the UK profitability of the card schemes.[13] Regular financial reporting would allow the PSR to monitor fee structures and market behaviours closely and continuously.

A regulatory financial report remedy would allow the PSR to gain deeper insights into the cost structures and revenue streams of card schemes. This would help in assessing whether the fees charged to merchants and acquirers are justified or if they are being inflated due to market dominance. Such oversight is essential for maintaining a competitive and fair market environment.

Implementing a regulatory financial report remedy is a strategic approach to enhance market transparency, promote competition, and protect the interests of all market participants. It aligns with the PSR's objectives of ensuring fair practices in payment systems and fostering a competitive and innovative market environment.

However, a regulatory financial report remedy is not a sufficient remedy in and of itself as it is unlikely to change the behaviours of Visa or Mastercard. The regulatory financial report remedy is still beneficial, but only as a basis on which the PSR can base further remedies for the market.

Question 23: Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

We believe that mandatory consultation and timely notification requirement remedies are unlikely to have a significant impact on the market.

As the PSR states in the interim report, acquirers have limited incentives to resist scheme fee increases and that individually negotiated acquirer discounts or rebates are very uncommon.[14] It seems very unlikely that a requirement for the schemes to consult acquirers

[13] PSR Market review of card scheme and processing fees, Interim report, page 10
[14] PSR Market review of card scheme and processing fees, Interim report, page 58

on fee changes or that the schemes have to provide timely notifications of fee increases would make any significant difference on the fee changes themselves.

This does not mean that the remedy wouldn't be appreciated by the merchant ecosystem. Members of the Axe the Card Tax coalition have expressed that these solutions would be beneficial to the merchants that they represent but that they would not be sufficient to address the wider issues within the payments.

Question 24: Do you have any views on ways in which other stakeholders, for example merchants, merchant associations and consumer groups, could participate in consultative discussions with the card schemes?

No response.

Question 25: Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

Yes, the PSR should consider possible remedies to address complexity and transparency issues within the payments industry. The current landscape, characterised by intricate fee structures and limited transparency, poses significant challenges for both acquirers and merchants. Implementing remedies to enhance transparency and simplify the fee structure would have several beneficial impacts.

Providing more granular and timely data regarding behavioural fees would enable acquirers to better understand the cost implications of their transactions. This information would also help merchants by clarifying the fees they incur, allowing them to make more informed business decisions. As identified in the interim report, the lack of clarity regarding which specific merchant behaviours trigger certain fees leads to inefficiencies and additional costs for both acquirers and merchants.

Creating a detailed taxonomy for classifying fees into standardised categories would help both acquirers and merchants understand the nature and purpose of each fee. This system would ensure consistency and make it easier to compare services across different providers. Further, mandating regular and detailed reporting of behavioural fees and other charges by card schemes and acquirers would improve transparency.

Addressing complexity and transparency issues through more detailed, timely, and accurate information on behavioural fees, along with a standardised fee classification system, would significantly benefit the payment ecosystem. These measures would reduce operational costs, enhance market competitiveness, and improve the relationships between acquirers and merchants, ultimately fostering a more efficient and equitable market.

Question 26: On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and

merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

No response.

Question 27: Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

The consensus from our ecosystem is that while the initiatives considered have potential, they are unlikely to yield the desired outcome to boost competition within a suitable timescale, making regulatory intervention necessary.

As we have stated throughout our response, Visa and Mastercard's current market dominance is profound, characterised by significant fee increases on the acquiring side, which directly impacts merchants and acquirers by driving up costs and stifling competition. The current market conditions highlight insufficient competitive constraints on these dominant card schemes, which prevents smaller players from being able to compete.

The market dynamics reveal a substantial imbalance of power that favours Visa and Mastercard, allowing them to leverage their market positions to impose substantial fee increases without corresponding improvements in service quality, innovation, or customer value. The "reverse competition" phenomenon, where higher fees on the acquiring side are used to compete for issuers, exacerbates the disparity between the costs faced by acquirers and the incentives received by issuers, creating a double harm to UK payment users. These harms, caused by the structure of the market itself, are important for understanding why the initiatives considered to boost competition are unlikely to be effective within a sufficient timescale.

The short-term measures, such as fee reductions and increased transparency, while necessary, are not expected to immediately foster significant new market entrants or alternative payment systems. The establishment of a framework to support these entrants is crucial but will take time to develop and implement effectively

As we stated in our response to question 20, a comprehensive regulatory framework analysing the impact of implemented remedies over short, medium, and long-term horizons is necessary. This framework should facilitate the assessment of the effectiveness of proposed solutions in promoting competition, enhancing transparency, and supporting innovation. The need for regulatory oversight to ensure continued adherence to transparency and to foster a competitive environment is vital.

There is general agreement among Startup Coalition's ecosystem on the necessity of regulatory interventions. Without such interventions, the market dynamics will continue to favour the dominant players, hindering competition and innovation. The market's reliance on acquiring-side revenue underscores the need for regulatory measures to address these imbalances and promote a more competitive environment.

Given the entrenched market positions of Visa and Mastercard and the slow pace at which market dynamics can shift, the initiatives to boost competition are unlikely to achieve the desired outcomes quickly enough to negate the need for regulatory intervention. Therefore, regulatory measures are essential to create a fairer and more competitive payments market, especially within sufficient timescales.

Question 28: Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

No response.

Question 29: Do you agree that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.

A price cap or price control could be implemented following this market review, despite the issues identified in the interim report. We do not believe that a price cap or price control is necessarily the best market remedy, however, we believe that the PSR should consider any and all remedies for the market.

While the data collected from card schemes may not be perfect, it still provides a valuable starting point. Regulatory bodies often work with imperfect data and can implement measures that are then refined over time. The lack of completely robust data should not paralyse action, especially in a market with clear signs of competitive constraints and rising prices.

Further, if a price cap or control is to be considered it could be implemented in phases, starting with areas where data is most reliable and gradually expanding as data quality improves. For example, we believe that there may be sufficient data to suggest that behavioural fees are not being used to inflate scheme and processing fees, even if the transparency issues identified by the PSR were to be resolved. This is therefore an area of the fees that the PSR could consider a price-cap or control for.

The need for intervention in a market showing signs of dysfunction could justify implementing price controls even with imperfect data. The key would be to design a flexible, phased approach that can evolve as more reliable data becomes available and as the market responds to the new regulatory environment.

Question 30: Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.

While we believe that the PSR should tranche their market remedies into short-term, medium-term and long-term solutions we do not necessarily believe that any of the proposed remedies should be time-limited.

Each remedy should be permanent but subject to regular review.

Question 31: Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.

The PSR, in its interim report, highlights "the importance of the PSR's work to unlock account-to-account payments, and open banking in particular, to facilitate greater choice for merchants for retail payments in the longer-term."

The PSR should consider, on a long-term basis, how it can further support the introduction of account-to-account payments within the UK. While the PSR, in collaboration with the other members of the Joint Regulatory Oversight Committee (JROC), has made strides forward on open banking, progress is being held back by a range of factors.

This includes the lack of a long term regulatory framework (LTRF), including a funding mechanism. The Government intends to address this through a new Digital Identity and Smart Data Bill, which could provide the enabling legislation for an LTRF for open banking, but this legislation has not even started its passage through Parliament yet and it may be years before its provisions have any bearing on industry.

Until the legislation passes there is no secure funding for the open banking agenda, with funding remaining on a voluntary basis until the LTRF is in place. Expediting a solution to this funding issue will be vital in order to ensure that open banking can play the role of an alternative to the card schemes.

Further, the PSR, through the JROC, should focus on enforcement of the existing rules to support the growth of open banking payments in the short term. We have heard evidence from startups in our ecosystem that API quality is inconsistent and that banks have different transaction limits that make consistency in the sector challenging. The looming introduction of mandatory reimbursement for authorised push payment fraud also poses an existential risk to the growth of open banking payments, as we expect banks to become extremely risk averse to payments with less friction.

In sum, open banking is one of the few alternative technologies to card payments that could scale to a material volume of payments, but it is not yet set up for success.

Question 32: Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?

As we stated in our response to question 19 the impact of innovation and technological innovation within the payments industry is a non-price outcome that is directly experienced by issuers, acquirers and merchants. Innovation within the market should therefore be considered as a relevant customer benefit as part of the assessment of any possible remedies. This would also be in line with the PSR's objective to "to promote the development of and innovation in payment systems."

We believe that the most value, innovation and efficiency is achieved where the market is designed to enable retailers to test, trial, switch between, and offer a variety of ways to pay. Therefore any remedies that better enable retailers to test, trial, switch between and offer a variety of ways to pay would overall provide customer benefits and should be considered within any assessment of possible remedies.

Tesco

Market review of card Scheme and processing fees: interim report

About Tesco

Tesco is the UK's largest retailer and accounts for one in every £11 spent in UK retail (including fuel). Our 2,863 stores facilitate a mixture of cash, card and emerging payment methods across [✂] manned till points and [✂] self-service checkouts. Our online grocery services also process a significant number of card-not-present transactions to meet consumer demands. Tesco Group includes the One Stop convenience store chain and Booker wholesaler, amongst other divisions.

We are pleased to see the time, effort, and analysis that has been undertaken to publish this thorough review and are grateful for the opportunity to provide our response.

Executive summary

- We recognise the PSR's provisional findings that scheme and processing fees are subject to a lack of competitive constraints, with regulatory intervention required to address the harm arising to those on the Acquiring side of the network.
- The report accurately outlines our merchant experience that the lack of effective competition has led to significant increases in scheme and processing fees over the last nine years. We have seen a [✂] increase in Scheme and processing fees since [✂] (as a proportion of transaction value), which equates to a [✂] annual increase in fees paid on a like-for-like basis rising from [✂] p.a.
- We are generally supportive of the remedies that are being considered and see that they are mutually reinforcing and must be implemented collectively to deliver genuine impact for the acquiring side of the network and ultimately end users. We have some concerns that implementing the remedies individually will not fully address the challenges on the Acquiring side of the network.
- We understand that the absence of UK-specific data from the card schemes makes implementing a price cap difficult. New financial reporting requirements to attain this data should be implemented immediately, so that a price cap can be implemented as soon as possible if market outcomes do not sufficiently improve from more immediate remedies.
- In addition to the interim report's proposed remedies, we would support a price rebalancing remedy, as proposed by the British Retail Consortium (BRC). This could first be implemented on a transitional basis before being made permanent.
- We agree that alternative payment rails such as open banking are not capable of providing genuine competition to the card schemes for the foreseeable future. Regulatory intervention is therefore required. Boosting competition should absolutely be a long-term goal, but one that would take many years to implement and many more years to realistically provide a competitive challenge to Mastercard and Visa.

Question 1 • Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review.

We agree with the facts and considerations identified and are particularly supportive of the recognition that card payments have continued to play a significant role in the UK payments market, to the point that they are now a hygiene factor for retail payments. We are also supportive of the approach taken to analyse the competitive constraints on both the issuing and acquiring sides to assess the imbalance across the two sides of the network.

Question 2 • Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the Acquiring side?

We are fully supportive of the analysis undertaken and agree with the finding that there are ineffective competitive constraints on the acquiring side. From a merchant perspective both card schemes are must-take payment methods and as such, merchants have no alternatives to provide the competitive constraint.

Question 3 • Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives?

We are supportive that there are no serious and viable alternatives at scale to Mastercard and Visa that meet the variety of use cases required in order to drive user adoption for these to become mainstream.

Question 4 • Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees?

We agree that operators of wallets are unlikely to result in an effective competitive constraint. Many merchants do not see wallets as a credible alternative to cards as the majority of payments made into wallets are still made via cards, with the same underlying cost structures becoming the base costs for the wallet operators and thus passed onto merchants.

Whilst we see account-to-account ("A2A") payments as a potentially exciting development in the payments landscape, we do not believe that they will have the ability to provide a real competitive threat to the card schemes for at least five years. For Tesco to sponsor and promote a new non card payment option the product must [✂]. We believe that A2A payments currently fall short of competition for the following three key reasons:

1. Not possible - In some instances A2A payments are not possible because the customer is not present in session. For example, grocery delivery where the final amount is not known when the customer checks out.

2. Not practical - At POS in store an A2A payment is possible, but too cumbersome to use in practice. Average transaction time is [✂] with card compared to [✂] with A2A due to the requirement for the bank to authenticate the customer which slows down the customer journey at the till.

3. Not economical - The fixed cost model makes account-to-account solutions not economical for retailers with low value, high volume transactions.

Question 5 • Do you have any views on our analysis and provisional findings that: (i) alternatives available to Acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK?

We agree that the lack of alternatives available to acquirers in the UK means that there are no effective competitive constraints relating to core processing services. We are particularly supportive of the assertion in paragraph 4.148 that issuers have little incentive to enable acquirers to choose an alternative processor, which ultimately limits the viability of this option.

Whilst in theory the separation of scheme and processing fees enables the processing element to be competitively constrained, the reality is that the schemes can reduce fees for those elements relating to processing fees, whilst increasing fees for elements relating to scheme fees. The suggestion being that they are rebalancing their fees away from the area that could, theoretically, become competitive without impacting their overall profitability.

Question 6 • Do you have any views on our analysis and provisional findings that: (i) Acquirers and Merchants typically have limited alternatives available to them for Mastercard and Visa's optional services; (ii) Acquirers and Merchants face significant implications if they do not use these optional services; and (iii) Acquirers and Merchants have limited countervailing buyer power when negotiating prices for these optional services.

Question 7 • Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services.

Question 8 • Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services).

We are providing a single response to address Questions 6, 7, and 8.

Whilst services such as 3DS and AVS may be technically classed as 'optional' these are not viewed as such by many in the merchant community. Not using these services will result in detrimental effects to a merchant's overall payment acceptance, authorisation, and fraud prevention performance. As a result, we agree that merchants have limited buying power and no real choice but to apply these services.

Third party providers of 'optional services' are at a significant disadvantage in most cases as they involve separate commercial and often technical integrations. The ability to use third party 'optional' service providers isn't therefore significant enough as a realistic option to materially impact scheme fees for merchants.

We disagree with the generosity afforded in paragraph 4.180 which states that 'the availability of effective alternatives is likely to vary across the many optional services…' as we do not believe this provides an appropriate summary of the analysis presented in Annex 4. We believe that any alternatives suggested do not provide the same outcome or solve for the same problem. For example:

Account Status Inquiry/Account Verification:

- Visa state that merchants could conduct upfront risk management or develop capabilities in-house.
- However, none of these options would meet the originally stated explanation of the service to 'check if the card is operational' or 'determine that an account is valid'.
- Completing this check requires a check to be performed with the card Issuer, which has previously been described in 4.148 as a barrier to entry for alternate processors due to needing an agreement with Issuers, with Issuers having little incentive to do so.

Mastercard Address Verification Service and CVC2/Visa Address Verification Service:

- As before, the only way to check the address that the card is registered to, or to check the CVC2 is to complete a check with the card issuer, which would require an arrangement with issuers, which issuers have little incentive to provide.

- All alternatives suggested are supplementary checks to a merchant to increase their fraud defences, not to replace these checks.

The report repeatedly states that merchants have not been consulted on these services. We would recommend that this action be taken and would welcome the opportunity to undertake discussions directly or as part of a merchant or retail panel.

Question 9 • Do you have any views on the optional services that we have not focussed on in our analysis (in particular those presented in Annex A to Annex 4)? If yes, please explain what these additional optional services are and what competition concerns you have around the supply of these services.

No response provided.

Question 10 • Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to competitive constraints on the issuing side?

We agree that there are greater levels of competitive constraints on the issuing side and see that this is evidenced by the imbalance in net fees paid when comparing the issuing and acquiring sides of the network.

Question 11 • Do you have any views on our analysis and provisional finding that the revenue from the Acquiring side accounts for the large majority of net Scheme and processing fee revenue for both card Schemes in recent years?

Whilst it is difficult to see the true picture in the review, due to the number of redactions relating to pertinent data, we believe that the acquiring side accounts for the large majority of net scheme and processing revenue.

Question 12 • Do you have any views on our analysis and provisional finding that the average Scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by Acquirers have increased substantially in real terms in recent years?

These findings are wholly aligned to our own experience, where we have seen a [✂] increase in scheme and processing fees since [✂] as a proportion of transaction value), which equates to a [✂] increase in fees paid on a like-for-like basis. This is compounded by the continued increase in usage of cards and the general inflationary environment (i.e. many scheme fees are priced ad valorem so an increase in the price of underlying goods translates to a further increase in scheme and processing fees).

Question 13 • Do you have any views on the extent to which changes in average fees levels in recent years have been accompanied by commensurate changes in:

- **The value to customers of the services provided by Mastercard and Visa?**
- **The quality of service provided by Mastercard and Visa?**
- **Innovation by Mastercard and Visa?**
- **Aspects of the transaction mix or characteristics of Acquirers or Merchants that we may not have fully captured in our econometric analysis (see Annex 7)?**

Whilst we appreciate the overall value that cards bring to the UK payments ecosystem, we have not seen any sufficient changes relating to services, quality, or innovation that would warrant a [✂] increase (as a proportion of transaction value) in the scheme and processing fees paid over an [✂]. Some fees that we have seen introduced appear to be opportunistic where the fees are introduced shortly after regulatory or rule changes that mean that undertaking the action that incurs the fee is now mandated. Examples of this are:

- the fees introduced for flagging transactions as 3D Secure authenticated, shortly after Secure

Customer Authentication regulation effectively mandated 3D Secure; and,

- New fees introduced by Mastercard for undertaking transactions at Automated Fuel Dispensers, which followed swiftly after merchants had undertaken significant development and changes to customer experience to adhere to mandated changes introduced by the schemes. The mandated changes are now the action that incurs the increased fee.

Question 14 • Do you have any views on our analysis and provisional findings in our profitability analysis? In particular:

- **Are there any factors that we have not covered in our report that may provide information on the relative profitability of Mastercard's and Visa's UK operations compared to their global and European operations?**
- **Are there any other comparators that have greater similarity to Mastercard's and Visa's UK operations than those that we have identified in our report?**

The report provides provisional conclusions that the acquiring side of the network has insufficient competitive constraints and suffers from increasing scheme and processing fees, whilst the issuing side avail of incentives levied to increase the attractiveness of issuing cards badged by Mastercard or Visa. We believe that this provides sufficient evidence of harm existing on the various participants on the acquiring side (acquirers, merchants, and end consumers).

Question 15 • Do you have any views on our analysis and conclusion that Issuers have a generally positive experience regarding the information they receive from Mastercard and Visa (such that they are able to access, assess and act on that information)?

No response provided.

Question 16 • Do you have any views on our analysis and assessment of the materiality of issues experienced by Acquirers?

The ongoing complexity of scheme fee categorisation, changes, and rules will no doubt have a material impact on acquirers as merchants will expect the acquirer to perform impact analysis and, in lots of cases, hold the acquirer liable for accurately assessing these. The changes are often vast, and not entirely clear in terms of impact and application.

Question 17 • Do you have any views on our analysis and assessment of our analysis in respect of behavioural fees, and Acquirers' ability to pass these fees on to Merchants (as set out in Table 4)? If so, do you have any experience and/or views how widespread the issues identified are and their underlying cause or causes?

The ongoing complexity of behavioural fees hampers the ability for acquirers and merchants to forecast and assess financial and operational impact and understand options to avoid these fees. The findings in paragraph 7.82 highlight that this complexity has led to several instances of schemes or acquirers failing to implement the fees correctly which has led to 'claw back' of fees from merchants. [✂]

Question 18 • Please provide your views on the prevalence (or otherwise) of Acquirers having to purchase optional services to identify Merchants incurring behavioural fees.

No response provided.

Question 19 • Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by Issuers, Acquirers or Merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.

It is important to note that vast and complex changes to scheme rules (outside of direct fee increases) have a similar impact to fee increases in terms of the complexity and understanding of the changes need to be fully compliant and avoid fines or declines.

The complexity of scheme fees and their application to variables (such as different card types, transaction sources, issuer location) makes it very different for a merchant to budget and forecast accurately. Once charges are levied, it is then very difficult for a merchant to fully reconcile that the transactions have been accurately charged based on the transactions undertaken.

Question 20 • What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?

We are generally supportive of the remedies that are being considered but also express some concern on the remedies that have been called out as not being under consideration. This is discussed further through our responses to the following questions.

Whilst the remedies under consideration are positive steps forward, we believe that individually they are relatively weak and would not serve to remedy the harm currently being felt on the acquiring side of the network. As such, we believe that the four remedies proposed, namely regulatory financial reporting, pricing methodology and governance, mandatory consultation and timely notification requirements, and complexity and transparency, need to be implemented collectively in order to begin to address the harm and reduce the likelihood of further impact.

Question 21 • Are any transitional provisions needed?

The report provides provisional conclusions that the acquiring side of the network has insufficient competitive constraints and suffers from increasing Scheme and processing fees, whilst the Issuing side avail of incentives levied to increase the attractiveness of issuing cards badged by Mastercard or Visa. We believe that this provides sufficient evidence of harm existing on the various participants on the acquiring side (acquirers, merchants, and end consumers).

The PSR first launched draft terms of reference for the market review into card acquiring services in 2018, at a point where merchants were already raising concerns about the unjustifiable nature of increases to scheme and processing fees. Since the start of [✂] we have seen our scheme and processing fees rise by [✂], during which time the card acquiring and subsequent card scheme and processing fees reviews have been underway. Our concern is that, left unchecked before the remedies are implemented, these fees will continue to rise and, therefore, we believe a transitional period where the rate card for the fees must not be increased needs to be implemented to prevent further harm. We are also supportive of the option of a price rebalancing remedy, which has been proposed by the British Retail Consortium (“BRC”) within their response, and we believe that this could first be implemented on a transitional basis before becoming enduring.

Question 22 • Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

Paragraph 8.45 states that a price cap is not being considered as ‘we consider that the issues we have encountered gathering suitable data from the card schemes mean that it is not an appropriate response’. This action rewards the Schemes for the opacity of their reporting on UK profitability and inhibits the ability to provide a precise and robust assessment of harm to market participants.

As a minimum, we agree that a regulatory financial reporting remedy is necessary to enhance the visibility of scheme profitability within the UK and to allow a more considered decision on whether a price cap is an appropriate remedy in future. It’s hard to envision that the harm currently felt will not continue to increase without accurate governance on financial reporting.

Question 23 • Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

Question 24 • Do you have any views on ways in which other stakeholders, for example Merchants, merchant associations and consumer groups could participate in consultative discussions with the card Schemes?

We are providing a single response to address Questions 23 and 24.

We are supportive of mandatory consultation but are very conscious that this needs to be implemented with very tangible outputs, strong governance procedures, and a willingness and ability for the PSR to demand robust justification for future fee increases. This approach would be particularly concerning if the mandatory consultation was simply between schemes and acquirers as the pass-through element of scheme and processing fees reduces the incentive for acquirers to provide robust critique of scheme fee increases, as highlighted in paragraph 4.127 of the review. Conversely, we recognise that it would not be feasible for Mastercard and Visa to consult with every merchant on any changes that they are proposing, nor do we advocate for this as an outcome.

We do, however, believe that efforts should be made to get a balanced view of interested parties on the acquiring side of the network through the introduction of advisory councils made up of representatives from the main areas impacted in society (for example, enterprise retail, SMEs, airlines, hospitality, charity, government, acquirers). Our recommendation is for an advisory council to meet on a quarterly/biannual basis with topics of discussion focussed on all scheme developments that will impact end users including innovation, behaviour changes, and fee changes, with all discussions documented and scheme responses to challenge presented back to the PSR for approval prior to implementation. Alongside this we are supportive of the implementation of timely notification remedies and our expectation is for schemes to provide a minimum 6-months' notice of any changes, via publicly accessible channels, once the changes are approved by the PSR.

Question 25 • Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help Acquirers and Merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

The complexity and opacity of scheme and processing fees has long been a source of concern for merchants – leading to issues in budgeting, responding, and reconciling these within a merchant's course of business. We, therefore, welcome a remedy which seeks to simplify and increase transparency of these fees.

As highlighted in the interim report, complexity of Scheme fees is a significant issue for acquirers and merchants to navigate and can cause confusion and lack of understanding as to what exactly is being paid for. Whilst simplified and transparent information would help merchants prepare, understand and budget for fees, it would not necessarily remedy the harm caused through increasing scheme and processing fees unless it provided greater visibility enabling the PSR to revisit the consideration of a price cap.

Aligned with our response to question 22, paragraph 8.45 states that a price cap is not being considered as 'we consider that the issues we have encountered gathering suitable data from the card Schemes mean that it is not an appropriate response'. This paragraph later states that 'Mastercard and Visa have hundreds of Scheme and processing fees' which only adds to the lack of clarity in data received. This action rewards the Schemes for the complexity and opacity of scheme fees and inhibits the ability to provide a precise and robust assessment of harm to market participants.

As a minimum, we agree that addressing complexity and transparency issues is necessary in combination with regular financial reporting remedies to enhance the visibility of scheme activity within the UK and to allow a more considered decision on whether a price cap is an appropriate remedy in future. It's hard to envision that the harm currently felt will not continue to increase without the ability to scrutinise these fees objectively.

We also note that paragraph 8.32 considers that optional fees should be offered on an opt-out basis. Our belief is that these fees should be opt-in rather than opt-out as this could unfairly penalise SMEs that don't have the availability of skills and experience to understand that they need to opt-out of particular services and what the implications of doing so are. This further aligns with the area of focus called out in paragraph 8.33 of the report.

Question 26 • On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the Schemes, Issuers, Acquirers and Merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

We would urge that any costs are not passed onto retailers, who already pay significant amounts to use the payment networks.

Question 27 • Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

We agree that alternative competitive outcomes are not currently developed sufficiently to achieve the outcomes required to remove the need for regulatory intervention. Boosting competition should absolutely be a long-term goal, but one that will take many years to implement and many more years to realistically provide a competitive challenge to Mastercard and Visa.

In particular, we see A2A payments as a potentially exciting development in the payments landscape, we do not believe that this has the ability to provide a real competitive threat to the card schemes for at least five years. For Tesco to sponsor and promote a new non card payment option the product must [✂]. We believe that A2A payments currently fall short of competition for the following three key reasons:

1. Not possible - In some instances A2A payments are not possible because the customer is not present in session. For example, grocery delivery where the final amount is not known when the customer checks out.

2. Not practical - At POS in store an A2A payment is possible, but too cumbersome to use in practice. Average transaction time is [✂] with card compared to [✂] with A2A due to the requirement for the bank to authenticate the customer which slows down the customer journey at the till.

3. Not economical - The fixed cost model makes account-to-account solutions not economical for retailers with low value, high volume transactions.

Question 28 • Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

We agree that surcharging and steering are not practical approaches to removing the need for regulatory intervention. Whilst the practice of surcharging is predominantly prohibited, this would also be detrimental to many merchants who do operate within a competitive market environment. Customer steering is very specific to each merchant and their interaction with their own customer base. Steering can be seen to be effective, but it requires a suitable competitive alternative to be available to steer towards, which doesn't currently exist within the UK payments ecosystem.

Question 29 • Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card Schemes? Please explain your position either way.

We do not agree that price caps could not be implemented given the issues identified in the interim report. The main reasons given for not considering a price cap appear to relate to the lack of clear and transparent data from the Schemes. The reading of this to those that are harmed by the lack of competitive constraints is that the schemes are being 'let off' by having made their business so complicated and opaque.

We recognise that a price cap would need to be complementary to the other remedies that are being considered and that this would inevitably take time to implement. We believe the long lead-time to implementation is a reason to keep this option under constant review alongside the implementation of other remedies.

We are also supportive of the option of a price rebalancing remedy, which has been proposed by the British Retail Consortium (BRC) within their response, and we believe that this could first be implemented on a transitional basis before becoming enduring.

Question 30 • Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.

We see no reason why these remedies should be time-limited outside of the ordinary course of regular regulatory instrument review.

Question 31 • Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.

We are supportive of the option of a price rebalancing remedy, which has been proposed by the BRC within their response, and we believe that this could first be implemented on a transitional basis before becoming enduring.

The basis of this proposal is that the average net pricing to acquirers (as a proportion of transaction values) must be no greater than its corresponding average net pricing to issuers. This approach would leverage the competitive constraints on the Issuing side of the network in order to drive pseudo-competitive constraints on the acquiring side. We also believe that this rebalancing would drive greater innovation within payments as all participants would be equally invested in the further enhancement of the service towards end consumers.

Question 32 • Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?

Whilst customers aren't directly impacted in the cost of payments, it should be recognised that these fees ultimately feed into a merchant's overall cost to serve which, along with many other factors, contributes to inflationary pressures on the price of goods and services to end consumers.

It should also be recognised that the current imbalance across the two sides of the network leads to varying degrees of time and effort being invested to continually innovate and enhance consumer experiences through card-based payments. Equalising the two-sides of the network would drive collaboration and innovation across the industry to lead to greater consumer outcomes.

Question 33 • Is there anything else we have not considered, and you think we should consider?

This analysis should be enhanced through the inclusion of evidence of the effect of regulation in:

- other countries that have regulated payment cards; and,

- other two-sided markets where one side has competitive constraints, and the other side doesn't.

Particular attention should be paid to the various unintended effects of regulation and any attempts to recover costs by other means.

Teya

Response to MR22/1.9: Scheme and Processing Fees Interim Report

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Market Review into Scheme and Processing Fees

30 July 2024

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Executive Summary

Teya welcomes the opportunity to respond to the PSR's Interim Report and appreciates the collaborative approach adopted by the Payment Systems Regulator throughout this market review.

The interim report paints a largely accurate picture of the competitive dynamics of the UK card payments market. [✂].

While accurate, this picture is not new. [✂].

[✂].

[✂].

Proposed Remedies

Mandatory consultation and timely notification. A mandatory consultation requirement on the schemes would be welcome to ensure that Visa and Mastercard explain the introduction of new fees or changes to existing fees to acquirers with sufficient notice. However, this mandatory consultation should include two additional features that the PSR does not currently mention: (a) an escalation process where an acquirer could rely on a third-party independent arbitrator [✂] and (b) SLAs for the time within which the schemes should respond or the data underlying a decision that they should publish.

Taxonomy and categorisation. The PSR should introduce common standards across both schemes to ensure that scheme fee codes, their names, and the type of fee (e.g., behavioural, optional, or core) can be easily tracked. Additionally, the PSR should require the schemes to introduce single sources of truth on their online portals, including all relevant information on a particular fee.
[✂].

[✂].

[✂].

[✂].

[✂].

Questions 1 – 19: The PSR's Findings

Question 1 – Retail Payments Landscape

Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?

Teya agrees with the PSR's findings that cards are the dominant retail payment method in the UK. Moreover, we also agree that the UK economy's reliance on cards continues to grow. This is due to the digitalisation of payments, driven further in recent years by the rise of mobile wallets, the vast majority of which run on card rails and the lack of alternative payment methods. Visa and Mastercard account for nearly 99% of UK card transactions (UK Finance) and have overtaken cash since 2017 (per BRC data, cards now account for 85% of retail payments value). Therefore, the PSR is correct to find that there are no viable competitors to Visa and Mastercard for P2B retail payments at present.

The PSR has also correctly identified the importance of Visa and Mastercard as two-sided networks, which means that the utility derived from the network by participants increases as the number of participants from the other side of the market increases. [✂].

The product types included in the scope of the Interim Report are also adequate to provide a clear picture [✂]. In particular, the differentiation between core and optional services is crucial [✂].

Teya also agrees with the Interim Report's decision to carry out a single analysis in relation to all scheme and processing fees charged by Visa and Mastercard as opposed to artificially segmenting based on card, transaction, or merchant types. [✂].

Teya agrees with the PSR's acknowledgement that digital wallets, BNPL, Open Banking, cryptocurrencies, and cash can only *theoretically* be considered as providing competitive constraints to Visa and Mastercard from the acquiring side. In truth, as will be highlighted below, they do not currently exert meaningful competitive pressure on cards.

Question 2 – Acceptance Side Constraints

Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side?

The PSR correctly notes that there are no alternatives to Visa and Mastercard for acquirers in the UK – they are the bare minimum acceptance for an acquirer to remain competitive. As such, every credible merchant payment service provider (PSP) directly or indirectly enables its merchants to accept Visa and Mastercard payments. For merchants, Visa and Mastercard are must-take payment methods, as international card schemes have become the overwhelmingly dominant payment methods for P2B transactions. [✂] The focus on spontaneous consumer payments is accurate in this context, as it determines the relevant market, i.e., retail payments, without skewing towards considering non-substitutable payment methods such as electronic fund transfers and direct debits. Accordingly, the must-take status of Visa and Mastercard becomes clear based on the lack of available alternatives in the spontaneous consumer payments segment and the unsuitability of alternative payment methods (APMs) outside of this segment.

[✂].

Accordingly, we agree that Visa and Mastercard have no meaningful competitive constraints on the acquiring side.

Question 3 – Consumer Steering

Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process?

Teya agrees with the PSR's approach of considering (a) the availability of APMs; and (b) the cost of steering to determine whether consumer steering by merchants is an effective competitive constraint.

On the availability of payment methods, current digital wallets are not relevant as they rely on card rails, directly or indirectly. The dominant UK wallets – Apple Pay, Google Pay, and Samsung Pay – merely provide a front-end for card transactions. PayPal wallets are generally funded through card transactions, which means they are the acquirers of Visa and Mastercard transactions. This means that increases in scheme and processing fees are transmitted by PayPal as an acquirer downstream to merchants that accept it.

BNPL cannot be considered an appropriate competitor because (i) fees paid by merchants for BNPL transactions are higher than for cards to cover the consumer credit risk – and thus limited to a small number of use-cases; and (ii) similar to PayPal wallets being funded through card transactions and as such scheme and processing fee increases being transmitted downstream, the majority of BNPL instalments are paid by customers using their cards.

Open Banking payments are not sufficiently developed and are far from being deployed widely in one-off P2B payments (the majority of the transaction value) – the next step in the JROC roadmap is to allow Open Banking payments to compete with Direct Debit in low-value government and utility bill use-cases. The first P2B use cases of Open Banking payments, according to the JROC roadmap, seem to be variable recurring payments (VRPs), which would compete with card-on-file transactions – a small part of the total card payments volume. For Open Banking payments to compete on a level playing field and be considered a challenger to cards, there would need to be a multilateral agreement including pricing, liability, fraud, dispute resolution, technical standards etc. as well as initiatives to enable POS acceptance through NFC for A2A payments. Most of these initiatives are yet to fully commence. The share of cash continues to drop and as such it can no longer be considered a competitive bulwark to card payments, particularly in the context of increasing consumer preference towards digital payments and the ability to use cards for higher-value payments.

On the costs of steering consumers, the PSR correctly identified that surcharging is prohibited for most card payments. While it is technically legal for cross-border card payments, it is typically not used due to the must-take nature of Visa and Mastercard, which leads to merchants fearing losing business to other merchants that do not surcharge or create friction in the payment process, leading to cart abandonment. [✂].

Question 4 – Wallet Competitive Constraints

Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees?

Teya largely agrees with the regulator's analysis regarding e-wallets and their reliance on card scheme networks. Pass-through wallets, such as Google Pay and Apple Pay, primarily facilitate transactions using payment cards. These wallets act as intermediaries, passing payment information to merchants without storing funds themselves, which inherently ties their functionality to the robustness and availability of card networks. Consequently, the likelihood of pass-through wallets moving away from card reliance in the short to medium term is very low.

E-money wallets, like PayPal, while having the capability to store funds and support alternative payment methods, still largely operate within a card-dominated framework. Despite their ability to integrate funding methods other than cards, such as bank transfers, the prevailing infrastructure and consumer habits show a significant reliance on card-based funding. This reality limits the extent to which e-money wallets can reduce dependence on card networks.

Moreover, the current market lacks any A2A wallet solution that can effectively compete with card payments in terms of convenience, security, and widespread acceptance. This absence further underscores the dominance of cards as the primary payment method. As a result, both pass-through and e-money wallets, despite their potential for supporting multiple payment infrastructures, do not present a substantial competitive constraint [✂].

In summary, while e-money wallets and BNPL solutions offer some degree of alternative payment methods, their impact on the overall dominance of card networks remains limited. Wallets remain predominantly reliant on card systems, [✂].

Question 5 – Lack of Alternatives for Core Processing Services

Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK?

Teya agrees with the regulator's analysis and provisional findings regarding the lack of effective competitive constraints on decisions made by Mastercard and Visa in the supply of core processing services to acquirers in the UK. [✂].

Despite the theoretical possibility of acquirers choosing alternative processors, the reality is that, except for 'on us' transactions, acquirers cannot unilaterally change processors without the agreement of issuers. This requirement for bilateral or plurilateral (a small group of issuers and acquirers) agreements, [✂].

Question 6 – Lack of Alternatives for Optional Services

Do you have any views on our analysis and provisional findings that: (i) acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services; (ii) acquirers and merchants face significant implications if they do not use these optional services; and (iii) acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services.

We agree with the PSR's analysis and provisional findings regarding the limited alternatives available to acquirers and merchants for Mastercard and Visa's optional services. The ancillary nature of these services to core scheme and processing services makes it more convenient for acquirers to source optional services directly from Mastercard and Visa, rather than contracting with alternative providers. [✂].

Additionally, as is discussed [✂].

Moreover, the availability of effective alternatives for many of these optional services is limited. While some services offered by Mastercard and Visa are equivalent, others are classified differently or do not have clear equivalents, making it challenging to compare and find alternatives. [✂].

The limited ability of acquirers and merchants to respond to fee increases by either declining to accept Mastercard or Visa or steering consumers towards alternative payment methods, further underscores the lack of effective competitive constraints. This is compounded by the existing commercial relationships that acquirers such as Teya have with Mastercard and Visa, which incentivise them to continue sourcing optional services from these providers for convenience and integration reasons.

[✂]. Mastercard and Visa thus face minimal competitive constraints in the supply of these services.

Question 7 – Other Constraints

Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services.

No, we do not believe there are any other competitive constraints on Mastercard and Visa in the supply of optional services that have not yet been considered.

Question 8 – Annex 4 Alternatives

Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services).

Teya agrees with the analysis provided by the PSR in Annex 4 – a large proportion of optional fees provided by Visa and Mastercard either (a) lack credible alternatives [✂].

Question 9 – Other Views on Optional Services

Do you have any views on the optional services that we have not focused on in our analysis (in particular those presented in Annex A to Annex 4)? If yes, please explain what these additional optional services are and what competition concerns you have around the supply of these services.

No, we believe that the PSR has considered all relevant views on optional services. [✂].

Question 10 – Competitive Constraints on the Issuing Side

Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to competitive constraints on the issuing side?

[✂].

Between 2018 and 2022, an increasing number of issuers switched between Mastercard and Visa, reflecting that competition on the issuing side increased. [✂].

Given the stronger competitive constraints on the issuing side, the regulator's focus on market outcomes in Chapter 6 is appropriately centred on the acquiring side.

Question 11 – Scheme and Processing Fee Revenue

Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years?

[✂].

Question 12 – Fee Increases

Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years?

[✂],

Question 13 – Fee Changes and Value/Quality

Do you have any views on the extent to which changes in average fees levels in recent years have been accompanied by commensurate changes in:

- ***The value to customers of the services provided by Mastercard and Visa?***
- ***The quality of service provided by Mastercard and Visa? o Innovation by Mastercard and Visa?***
- ***Aspects of the transaction mix or characteristics of acquirers or merchants that we may not have fully captured in our econometric analysis (see Annex 7)?***

[✂].

Question 14 – Profitability Analysis

Do you have any views on our analysis and provisional findings in our profitability analysis? In particular:

- ***Are there any factors that we have not covered in our report that may provide information on the relative profitability of Mastercard's and Visa's UK operations compared to their global and European operations?***
- ***Are there any other comparators that have greater similarity to Mastercard's and Visa's UK operations than those that we have identified in our report?***

[✂]. The PSR further goes on to state that it has "insufficient data to reach a firm conclusion on the existence of high prices or excessive profits". However, as will be discussed further in the context of the proposed Regulatory Financial Reporting (RFR) remedy, Teya believes that the focus on profitability and efforts to establish the appropriate margin distract from conclusions that can be extended from what the PSR has already found in the interim report.

[✂].

[✂].

[1] [✂].
[2] [✂].

[✂].

Question 15 - Issuers' Experience

Teya cannot comment on the full extent of issuers' experience when dealing with the schemes as acquiring comprises the largest portion of our business. However, we can comment given our experiences with the Teya Business Account – a business debit card issued by Teya in partnership with Visa. While Teya Business Account was only recently launched, our relationship with the schemes on a day-to-day basis remains related to acquiring [✂].

Through this process, both schemes were highly responsive to our queries and worked constructively with us, even taking the initiative to ensure issues did not arise.

Question 16 - Materiality of Issues for Acquirers

[✂].

[✂].

[✂].

Question 17 – Behavioural Fees

[✂].

[4] As of 2022 as per the Future of Payments Review report.

Question 18 – Optional Services to Understand Behavioural Fees

Teya agrees with the PSR's findings that acquirers have to purchase optional services to understand behavioural fees, and as such enact changes that can stop them from incurring such fees on an ongoing basis. [✂].

Question 19 – Non-Price Outcomes

Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers or merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.

[✂].

Question 20 – Remedy Prioritisation

What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think the PSR should prioritise implementing?

[✂].

Questions 21-32: Remedies

Question 21 - The Need for Interim Remedies

Are any transitional provisions needed?

[✂].

Question 22 - Regulatory Financial Reporting

Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

[✂].

The ORR, for instance, highlights that:

"Good quality financial information is important for effective regulation as it helps to ensure that the interests of customers […] are properly protected. […In particular, the regulated company] Network Rail's regulatory financial statements […are] more relevant for regulatory purposes than

the information contained in statutory financial statements […as] the [regulatory] statements are set out in a format consistent with our relevant policies and regulatory framework."[5]

[✂].

[5] ORR, *Regulatory accounting guidelines for Network Rail* (2024).

[✂].

[✂].
[✂].

[✂].

8 [✂].

[✂].

Question 23 - Mandatory Consultation and Timely Notification

Teya understands the mandatory consultation and timely notification remedy to be a formal consultation period for stakeholders to digest and possibly challenge fee increases proposed by schemes. Under this remedy, fee increases would indeed be proposals until their final acceptance following an arbitration process. Acquirers would be the principal recipients and participants in such a consultation forum, given that acquirers have the technical expertise that merchants (particularly smaller ones, which make up 99% of businesses in the UK) lack. Further, any fees would require acquirers to provide significant resources in the form of implementation specialists, partnership associates, and legal or compliance resources, to name a few – making their participation a key requirement in a consultation period.

During this consultation period, schemes would be required to provide stakeholders with an opportunity prior to the implementation of fee increases. Further, the timely notification remedy would require that fee changes are not effected until a specific period, likely one or two months, has passed.

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[9] [✂].

Teya supports these proposed measures but notes that they must be carried out with key considerations.
[✂].

[✂].

A mandatory consultation period and timely notification could grant acquirers sufficient time to understand the rationale behind fees and fines, enabling them to ensure adherence to the rules and providing an opportunity to address any misunderstandings or errors before the charges are implemented. [✂].

Question 24 - End-User Involvement

Teya understands this remedy as requiring schemes to provide detailed pricing information to merchant associations, merchants directly, and consumer groups.

Teya believes that this remedy is not an effective mechanism to protect the most vulnerable merchants in the economy. First, the largest merchants (who have significant resources to decode scheme fees) already have relationships with schemes to negotiate pricing and fee optimisation. The added benefit of a proposal to add small, independent merchants to the conversation is null as such merchants – who comprise Teya's primary client base – outsource the complexity of dealing with the scheme and processing fees to acquirers. This is what led to the rise of fintech acquirers, as small businesses looked for simplicity when it came to accepting payments, opting for blended/standard pricing over IC++. Therefore, forcing the sharing of scheme fee information with merchants will threaten to roll back on the simplicity that small businesses appreciate.

As such, due to the complicated nature of scheme fees, Teya believes that other remedies, particularly the mandatory consultation and taxonomy systems, are more beneficial transparency measures.

Efforts should be placed towards ensuring more transparency towards acquirers rather than merchants themselves, as fintech acquirers have aimed to serve SMEs with fairer products, pricing, and general business practices. [✂]

Question 25 - Taxonomy and Categorisation

Teya understands this remedy refers to a standardised classification of fees across all major schemes. This means the use of a similar alphanumeric coding system and fee names across

However, standardised taxonomy and categorisation will not be adequate. ***We additionally argue that every scheme should have a single source of truth for explaining all aspects of the fees they charge, in the form of a single webpage on their online portals. This means that a single page on the schemes' online portals should include the fee classification, past billings of that fee, definitions and explanations (including examples for behavioural fees), evolutions over time, and associated bulletins. The remedy would aim to ensure acquirers can correctly compare and understand fees in billing statements through respective online portals.***

Teya firmly believes that public disclosure initiatives should be accompanied by specific rules for Visa and Mastercard regarding how they deliver information to scheme participants. Specifically, Teya supports the PSR stipulating standardised formats for Visa and Mastercard to present multilateral scheme and processing fee levels and rules. This should include, but not be limited to, different billing event IDs and clear, concise descriptions for each scheme and processing fee levied on participants. Importantly, the taxonomy must be granular enough to differentiate between different fees. Often, the taxonomy for a large group of fees is written in the same way, so identifying specific fees can be difficult.

[✂].

[✂].

Further, a standardised and sufficiently granular taxonomy or system for fee classification would be beneficial – particularly if mandated by the PSR and standardised across all schemes. This need is exemplified by our experience with billing practices from both major schemes. [✂].

[✂]. Teya highly welcomes a remedy that requires schemes to publish a 'single source of truth' or standardised taxonomy of fees that outline their objective and why they were introduced. Again, this could simply take the form of a single page on scheme portals with their classification, past billings, explanations, evolutions over time, and associated bulletins. A standardised taxonomy would greatly enhance transparency and usability for service users. Such measures would not only streamline the billing process but also foster a more transparent and competitive environment, ultimately benefiting all stakeholders in the payment ecosystem.

Question 26 - Costs to Stakeholders

Teya believes that the vast majority of the costs of the PSR's proposed remedies would fall on Visa and Mastercard themselves as opposed to scheme participants or end-users. [✂].

[✂].

[✂].

Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

Teya supports the PSR's efforts to develop Account-to-Account payments as a potential alternative to cards. [✂].

[✂].

Nevertheless, Teya does believe the PSR can do more to boost competition in this regard, in a way that ties to this market review. The PSR and FCA have recently launched a workstream looking into the Digital Wallet ecosystem, and the potential risks to competition it may create. This workstream will naturally draw inspiration from the work of the European Commission in securing commitments from Apple to unlock the use of the NFC chip to third parties, and thus enable the creation of alternatives to Apple Pay, the most common Digital Wallet in the UK. [10] As highlighted by the PSR Panel's Digital Payments Report, the fact that "contactless payments are very well-established and well-accepted by consumers" and that "QR codes are less secure than contactless communication between an NFC chip and a POS terminal" creates an imperative for the PSR to take similar steps and enable third-parties to freely leverage the NFC chip on Apple iPhones to conduct A2A payments.[11] [✂].

[✂].

[10] https://www.psr.org.uk/media/yqinyhhn/cp24-9-cfi-digital-wallets-july-2024-v2.pdf (Paragraph 2.8)
[11] https://www.psr.org.uk/media/x3tjjuj1/psr-panel-dpi-report-may22.pdf Paragraph 125 to 128

Question 28 - Surcharging and Steering

Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

Yes, Teya agrees that surcharging and steering are unlikely to remove the need for regulatory intervention.

As expressed in our previous responses during the course of this market review, enabling surcharging on all cards would not be a workable solution given how the practice worsens the purchasing experience for customers, a factor which merchants are seeking to optimise more and more. Even if the practice were somehow introduced at scale, a material portion of customers would nevertheless prefer to shop at merchants which did not surcharge the preferred payment method. To avoid losing further business, merchants surcharging would react by stopping the practice. Known as the business-stealing effect, this is the same phenomenon, which means merchants can't stop accepting a must-take payment method. Just like merchants could not stop accepting Visa or Mastercard cards, they could not sustainably surcharge them.

The key assumption driving this conclusion is that consumers are quicker to switch shops than to switch payment methods. We believe this to be a fair assumption given the dominance of cards compared to any other payment method in the UK, and the much higher degree of competition between merchants. This is also particularly true when it comes to small local businesses, who don't have any of the bargaining power over their customers which large and well-established businesses may have [✂].

Question 29 - [✂].

Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.

[✂].

[✂].

[✂].

[✂].

[12] [✂].

[✂].

Question 31 - Other Remedies

Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.

[✂].

[✂].

13 [✂].
14 [✂].
15 [✂].
16 [✂].
17 [✂].

[✂].

18 [✂].

[✂].

19 [✂].
20 [✂].
21 [✂].

[✂].

22 [✂].
23 [✂].
24 [✂].

Question 32 - Customer Benefits

[✂].

UK Finance

PSR consultation on card scheme and processing fees

UK Finance Response

31 July | 2024

UK Finance Response

This is UK Finance's response to the PSR's Market review of card scheme and processing fees.

This response has been sent to **schemeandprocessingfees@psr.org.uk**

General comments

UK Finance welcomes the direct engagement that the PSR has taken in advance of this consultation.

Executive Summary

- The Interim Report found that the card market is "not working well". Our members disagree with this narrative and we point out in this response why it is actually working extremely well
- The approach may have benefitted from a deeper understanding into what is necessary to build and maintain payments systems that can deliver economic growth (by enabling very convenient and fast payments in store and online, that are safe and secure from fraud, manage technology and cyber risks, and deliver consumer protection when things go wrong)
- The Interim Report identifies a difference in the relative distribution of net costs and income between consumer facing issuers and merchant facing acquirers. Issuers point out that this economic model has greatly benefited the consumer banking market, fostering fintechs to offer competition and choice in consumer banking to millions of UK consumers, in addition to maintaining free banking. In addition, the card networks have enabled both issuers and payment acceptance firms to gain access to their network through arrangements with established scheme members
- The focus on merchant costs is viewed by many as being too narrow. We suggest the policy focus should be looking at what works well (such as providing world leading solutions to meet consumers' and merchants' needs, as highlighted by Joe Garner in his Future of Payments Report and focussing on the outcomes for retail payments outlined in the Bank of England's recent discussion paper (both referenced later in this response). Payments policy and outcomes would benefit from regulators and policy makers being prepared to take learnings from the cards market which could assist in the development of open banking and emerging payment types – we would add that the UK's position as a world leading card market and the benefits that flow to merchants and consumers did not happen by accident
- There is some support for some of the findings on the scheme change management processes that could be improved, but most acquirers think the approach should be a measured one and are not supportive of regulatory intervention in scheme mandates (a few acquirers would welcome regulatory approval of mandates). Further work by the regulators in this area would be better focussed on what outcomes would be desirable rather than what rules should apply to prescribe how those outcomes will be achieved

This response is structured in three parts:

(a) General industry commentary on the Interim Report's narrative;

(b) Commentary from the card acquirers' viewpoint; and

(c) Commentary from the card issuers' viewpoint.

1. General Industry Commentary on the Interim Report's Narrative

1.1 Introduction

This is the third market review from the PSR in recent times that has found that the card market in the UK is "not working well". Below we assess if that statement holds up to scrutiny.

Overall we conclude that the over-arching narrative and the context in which it is reported is significantly incorrect and unbalanced. "Not working well" implies that consumers and businesses are not receiving high quality services. The cards industry response is that this narrative is inaccurate. Visa and Mastercard, alongside other card market participants and partners have delivered and invested heavily to ensure that the card market delivers positive outcomes for businesses and consumers – the market is robust, stable, secure and extremely convenient; consumers have excellent payment protection in store and online (a current example is the recent Carpetright insolvency, where consumers who paid by card will be able to apply for a refund[1], whereas cheque, bank transfer and cash customers will not). Fraud is coming down proportionately year after year. Ecommerce and cross border payments have grown substantially (and securely), driven by innovations and investment from the cards industry, unlocking economic growth. The participants in the market have enabled new forms of commerce to emerge, such as the many online marketplaces that have harnessed the internet as a sales channel where cards have enabled buyers and sellers to complete their purchases seamlessly.

The market "not working well" synopsis risks significant public misconceptions about the cards market – which has the potential to unfairly damage the trust and confidence that consumers and businesses have in paying with and accepting cards. The "market not working well" narrative is materially at odds with Joe Garner's recent review into UK payments (referenced below). This is important – 61%[2] of all payments made in the UK are made by card.

[1] This is through the "chargeback" rules and processes established by each scheme, where issuers receive claims from their customers, screen them and then raise disputes/refund requests through to the acquirer via the scheme. Time limits and conditions apply (in the scheme rules and customer banking terms and conditions). Issuers credit their customers with successful disputes/refund claims and acquirers in turn credit the issuer and charge the merchant (or where the merchant is insolvent, suffer a credit loss)

[2] The UK Finance Payments Report 2024 https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/uk-payment-markets-2024.

On the acquiring side, opinions (and the strength of those opinions) vary. Most willingly accept the role of the payment system operator to continually drive standards and innovation, and do not support the type of interventions proposed, but would rather place the focus on transparency, improving change management processes and the explanations that accompany them. Acquirers would then be able to manage their businesses and merchants more effectively, influence intended behaviours, and ensure that opportunities to bill for fees paid or to decline services not needed are not lost. A few acquirers however expressed stronger support for the regulators to intervene in the mandate approval process.

The question is whether direct intervention by way of blunt tools such as directions is the best way to deliver such improvements, or whether they could cause the unintended consequences of stifling innovation, or creating a consultation bureaucracy requiring significant resource, leaving the UK as a less attractive market to launch new products and services. At a strategic level, our view is that a market and consensus led response to the Interim Report is likely to deliver better outcomes than regulatory intervention.

1.2 A more balanced narrative

We are not suggesting that the cards market is perfect nor that some areas cannot be improved. But we do think it is time to present a more balanced narrative that shows how effective and efficient the card market is, the benefits it brings to the UK and the UK's leading position of having one of the most innovative, safe and secure cards and payments markets in the world – and it is very competitive with over 200 issuer/acquirer participants directly operating on the networks, many of whom also enable other PSPs to access it (such as via sponsorship issuing and acquiring deals, payment facilitators and ISOs (third party sales organisations) that partner with acquirers. UK issuers, acquirers and Visa and Mastercard have all played their part here (alongside others like American Express, Klarna and PayPal).

The Interim Report focusses heavily on changes in cost to assess if a market is working well and serves consumers' and businesses' needs. However, our members think it does not give a fair evaluation of the investment industry makes and the outcomes delivered to improve safety, security and stability to counter the threats of financial and cyber-crime. At the network level, these investments are funded by processing and scheme fees.

There are other ways to create a regulatory and policy environment that promotes competition and choice, rather than very intensive, extensive and expensive interventions.

1.3 The Future of Payments Review (FPR) and the Government's Payments Vision

On the preceding day to the submission of this response, The Bank of England issued its discussion paper on innovation in money and payments (**BoE Paper**) which noted that HM Treasury will take forward a Payments Vision[3], following the FPR. We think it is worth

[3] The Bank of England's approach to innovation in money and payments, Discussion Paper 30/07/24: "*HM Treasury has been considering its response to the 2023 Future of Payments Review, which provided recommendations to successfully deliver world-leading payments. The government has now confirmed its intention to take forward a National Payments Vision, and we will engage closely with HM Treasury to meet their ambitions for the UK payments landscape as a whole*."

recollecting some key points in the FPR, UK Finance's recommended approach to the Payments Vision and some commentary in the BoE Paper.

It is fair to say that Joe Garner noted merchant dissatisfaction on merchant costs, but the FPR report is clear that the approach should be to offer merchants and consumers choice and let the market play it out. Having reviewed the UK card market and compared it internationally the FPR report notes (p9): "*from a consumer point of view, the UK holds a leading position for the purchase experience of goods and services – both in-person and online*". This " *leading consumer experience [has been] driven by cards in general and contactless in particular. The UK has high card adoption, and the contactless experience is faster and contains better consumer protection than international alternatives to cards*." (conclusion 1, p 31).

The FPR focusses on what consumers need and identifies a number of factors for consumers choosing which way to pay (p19). The top 6 factors are:

- familiar payment method
- speed
- purchase protection
- security
- ease of tracking payments
- wide acceptance

The digital experience of cards has not only evolved rapidly over the years but is set to continue innovating : "*There are significant changes rolling through the cards market currently. New providers of card machines are emerging, and the prospect of using a mobile phone as a digital card reader has already become a reality. Furthermore, digital wallets are changing the nature of consumers' relationship with their cards, further reducing friction in the payment process, and shifting the economic models. Innovation appears to be occurring in the cards payments market at a significant rate*."

The FPR recommended that HM Treasury take forward a Payments Vision and we welcome the confirmation from the Bank of England that HM Treasury will be taking it forward.

The Bank of England notes in the BoE Paper[4] that its "*policy outcomes in retail payments are geared towards the goal of delivering trust and confidence in money*". Its Outcome 2 includes the need for the regulatory environment to "*support safe and sustainable innovation in payments*". Outcome 3 includes "*There must be end-to-end resilience across the payments chain for retail payments*". Outcome 4 includes "*Infrastructure providers must have sustainable and coherent funding and revenue models to ensure they can invest in their resilience and modernisation*". There is much in the FPR and the BoE Paper outcomes referred to above that help frame this response to the Interim Report. We do so by considering UK Finance's approach to the Government's Payments Vision. In our

[4] Section 4.3.1 BoE Paper

submission to HM Treasury on the Payments Vision we focused on 4 key areas, which are consistent with the BoE Paper outcomes. They are:

- Confidence;
- Resilience;
- Accessibility; and
- Value and choice.

Below we briefly assess the cards market against these key areas and the extent to which the Interim Report accurately represents the cards market.

1.4 Confidence : The Foundation to Enable Growth

Both merchants and consumers have a very high degree of confidence in the cards market. On 24.5 billion occasions in 2023[5] consumers and businesses opted to use and accept a card – that is on average over 775 transactions per second. Consumers are protected against fraudulent use of their card and the card market has invested heavily to reduce fraud. The UK Finance Fraud Report 2024[6] shows that card fraud represents a few basis points of total transaction value (5.8 pence per £100 in 2023) and has been reducing year on year in both value and the number of cases. Prevented fraud is over £1bn. Consumer protection through chargebacks and Section 75 Consumer Credit Act 1974 (for credit cards) gives consumers confidence that they can apply to obtain a refund if something goes wrong with their purchase or their supplier becomes insolvent[7]. Consumer confidence is driven by the knowledge that they can pay how they want to pay, safely and securely in millions of outlets in the UK, worldwide and online. Confidence for the merchant is knowing that they will be settled and their acquirer and third parties provide the tools they need to prevent fraud and help their business grow. Merchants also want high authorisation rates – declined transactions lead to unnecessarily lost sales in addition to the very necessary prevention of fraudulent purchases.

We mentioned earlier that the UK has a world leading proposition in enabling consumers and merchants to transact securely and reliably. An example can be found when looking at EMV 3DS authentications in the UK (authentication is the part of the payment process that checks the buyer is who they say they are). According to data obtained by UK Finance from one of the 3DS providers, the UK market performs much better than its peers with higher authentication success rates than Ireland, Europe, Africa and Asia, the Americas, Oceania, and the Middle East. This is because the industry has worked tirelessly, using AI and risk tools and analysis to allow transactions to safely progress to authorisation (this is a check on whether there are sufficient funds or credit available) without stepping up the authentication

[5] UK Finance Payment Report 2024 https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/uk-payment-markets-2024
[6] https://www.ukfinance.org.uk/system/files/2024-06/UK%20Finance%20Annual%20Fraud%20report%202024.pdf
[7] See footnote 1 p3. Section 75 CCA claims are also subject to conditions and eligibility requirements

into a “challenge” (where the buyer has to two factor authenticate, whether by SMS or banking app approval). The challenge rate is also much lower in the UK than its peers, highlighting a robust and world leading payments landscape.

The card systems’ successful defensive capabilities are the foundation that has delivered trust and confidence. When the positive enablers of cards are layered on top of those foundations, real economic growth is fostered. Cards play a significant role in driving and enabling ecommerce and commercialising the internet. During Covid, enabled by cards many local retailers and hospitality outlets could turn their businesses towards ecommerce enabled businesses - opening up new revenue opportunities domestically and internationally. The two increases to the contactless limits were handled seamlessly and efficiently by the industry, making purchases even easier to make. The speed and convenience of cards and the market’s ability to accept and promote new acceptance methodologies like contactless, Apple Pay and Google Pay, deliver a very quick and secure check out for merchants and consumers. The consumer and merchant experience of cards, especially in the UK, simply do not square with a “market not working well” narrative.

1.5 Resiliency

Resiliency is about always being “on”, whatever the threat, be it internal or external, malicious or not. That means the card networks, the issuers and the acquirers need to make sure everything works, all of the time. Outages in the cards markets are rare and the card schemes themselves are well into the 99.999% range of availability – often referred to as “five nines”. This level of performance is remarkable for any technology business and is the result of industry collaboration and investment in multiple data processing centres with automated switchover capabilities and billions invested in cyber-crime prevention. The card sector performance stands out if compared to other sectors, such as transit or travel.
The investments in resiliency, technology and cyber risk prevention and mitigation cannot be under-estimated. Those investments are made by all participants in the cards system and are paid for by the economics they earn from it. Referring back to the BoE Paper outcome 4, those economics for all participants in the card network represent “*sustainable and coherent funding models*” that fund “*resilience and innovation*”.

1.6 Accessibility

The cards market has made great strides in the accessibility arena with many issuers ensuring their cards are readily identifiable and useable by consumers with visual impairment (with raised dots, notches and visual enhancements) and with respect to card machines UK Finance itself has established standards with the RNIB[8]. Industry continues to collaborate to improve accessibility.

[8] https://www.ukfinance.org.uk/policy-and-guidance/guidance/card-terminal-security-and-accessibility

1.7 Value and choice

Here we would point to the availability of many payment options. Our members think the Interim Report plays down the importance of other payment types and does not place sufficient weight to its own recognition that in many cases cards are cheaper than alternatives, such as buy now pay later (14% of people in the UK used this product in 2023, up from 12% in 2022[9]). Studies in Sweden[10] and a white paper by BCG[11] have also highlighted that cards are cheaper than cash.

The value that merchants and consumers derive from cards is not adequately explored in the Interim Report, as no doubt they are difficult (though not impossible) to place an econometric model over. By failing to present, or fairly consider, econometric evidence of value in the Interim Report, we are presented with an *opinion* that there is no evidence of value or that value is a "*vague concept*". Vague or not, we would contend that it is one of the most important items when it comes to determining how someone wants to pay or be paid and how to create a well-functioning payment system (which we will turn to below). There is significant weight placed on merchant feedback, but it does not appear that 9 merchant responses represent significant concerns from the merchant community.

Most financial firms that interact with consumers or small businesses are required to assess "fair value" under the Consumer Duty. Cost is a relevant factor but value for money is the major consideration. All participants in the card networks would agree that the card market and the benefits it brings to merchants and consumers, is value for money. But "value for money" is not explored in the Interim Report. More expensive alternatives are dismissed as not being significant enough to represent a complete alternative to cards (which are addressed as "must take") or act as a significant brake on the pricing on scheme and processing services. Instead, the focus is on a periodic review of costs and an assertion that no extra value or service was offered in that period (despite the investments made in resilience, security, fraud, tokenisation etc). Therefore an understanding of how investments are made in the payments market and the long term return profile of investing in network effect developments are not explored – some fail, others succeed, but they are often associated with negative cash flow in early years to encourage network wide adoption. The "must take" cost driven approach does not allow for an explanation or assessment why consumers (97% have a debit card[12]) and merchants choose to use and accept cards – the

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[9] The UK Finance Payments Report 2024 https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/uk-payment-markets-2024

[10] https://www.riksbank.se/globalassets/media/rapporter/riksbanksstudie/engelska/2023/riksbanksstudie-cost-of-payments-in-sweden.pdf [*this report looks as the social unit costs of payments*]

[11] "The Hidden Cost of Cash and the True Cost of Electronic Payments in Europe and the UK", Boston Consulting Group White Paper

[12] The UK Finance Payments Report 2024 https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/uk-payment-markets-2024

cards industry would contend this choice is driven by the value and benefits they bring to both sides of the transaction equation.

It is not easy to reconcile a position that the cards market does not work well that also provides a high degree of consumer fraud and purchase protection, is always on, is extremely convenient to use (especially with the growth of contactless and mobile wallets), is very safe and secure and is cheaper than the many alternatives available.

1.8 Intervention and Growth

As we have highlighted, the UK is recognised as a world leading card market, often launching new services and innovations before other markets. We are concerned that excessive regulatory intervention either on how they price or how they bring new features to market, might delay the introduction of innovative payment solutions into the UK. Whilst some participants would welcome further transparency in scheme and processing services, there is a material degree of caution that such measures could end up with significant unintended consequences, such as platform investments or burdensome consultations. Moreover, the types of interventions proposed do seem somewhat disproportionate and unprecedented, when compared to other markets, save for perhaps the energy market (where the interventions related to direct costs incurred by consumers that could impact cost of living). The impact of card costs on consumers is unproven. When measuring the Interim Report's estimate of increased fees (£250m) against the total card turnover in the UK (£930 billion in 2023[i]) and the very small cost per transaction (pennies), it would be fair to question whether the scale of the problem identified would warrant such an interventionist approach in any other industry.

The dynamic cards market that we have in the UK today is the product of a progressive regulatory environment and scheme led investment and innovation. Issuers and acquirers (and their intermediary PSPs) enabled by this environment have also invested and innovated to serve consumers' and merchants' interests. It did not happen by accident.

The impact of further regulatory intervention into the cards markets need to be considered extremely carefully. They are likely to disincentivise investment and risk taking on new solutions and discourage competitors to launch here in the UK. Investment and innovation will naturally be made elsewhere first. We therefore caution against significant local interventions into the workings of global networks.

1.9 Concluding Remarks (and Open Banking)

Firstly, the narrative on competition should be about choice and that should be centred around what consumers and business want as a total proposition, not just on merchant costs. Even the Interim Report itself notes that more expensive options are available and that merchants willingly take them up because they deliver enhanced sales and it's what their customers want.

Secondly, this response and the Interim Report are not about open banking, but it may serve help bring to life the key points we wish to make – and of course the Interim Report mentions open banking as an important way to increase competition in the market.

The cards industry is supportive of new payments types coming to market to create choice for the payments providers, consumers and merchants. Unfortunately, by focusing on the economics of the cards industry through the single lens of merchant costs, there is a consequence as to how regulators look at open banking. That approach is missing a deep understanding of what merchants and consumers need and the costs to payments firms and banks of serving those needs (and the incentives needed to promote alternative options). By not taking benefits and "value" into account in the cards world, and the critical role the schemes and their clients play, the regulatory approach to open banking is not seeking to learn from the many positive attributes of cards and "what works well". The focus on open banking is therefore based on prescriptive methods, seeking to foster a market without applying market principles or fully considering what users want. In other words, if open banking is to succeed in offering greater choice, it needs to find its own market led alternatives to what the card system already offers in order to build a compelling proposition that consumers and businesses will voluntarily choose to adopt. The BoE Paper outcome 2 includes "*Retail payment methods must be responsive to consumer choice and needs. They should be quick, easy, secure, cost effective and widely available to support financial inclusion*". Cards meet these tests and we recommend that the regulatory approach to cards, open banking and retail payments generally adopts the more progressive approaches set out in the FPR and the retail payments section of the BoE Paper.

The risk for the UK is that heavy intervention in the cards market will damage what works well there and sets the scene for an overly prescriptive approach to the open banking market. All of this has a direct impact on growth – payments are the lifeblood of commerce enabling safe, secure and vibrant economic activity to take place.

2. Acquirer commentary

UK Finance held group and bilateral discussions with acquirers to understand their perspective on the Interim Report. Whilst they recognise the importance of Visa and Mastercard and the benefits that they have created and continue to create, they would overall welcome more consultation, explanation and transparency.

2.1 Network Effect

Acquirers appreciate that network effects necessitate near universal take up of a particular feature. They recognise the importance of a payment scheme to set common operational and processing rules. They recognise the benefits of merchant monitoring at a scheme level to protect the ecosystem, the innovations in tokenisation, card on file (and the ability to stop recurring payments), contactless and smartphone enabled digital wallets. They value the investments in fraud and cyber security and resilience and the stand in mechanisms available in the event of a processing platform outage at the scheme or issuer level. They recognise the core acquiring platform has enabled them to offer dozens if not hundreds of value added services to merchants – to the extent perhaps that a view on the "acquiring market" is now out of date and that it is these other services, especially gateway, ecommerce, alternative payment type and vertical integrations that are the key determining factors in how merchants choose their PSP. They note that the schemes are very well established networks and have enabled a very deep and broad payments market to thrive. In the same way that new issuers have joined the network, new acquirers have joined the network, enabled by the schemes' approach (not led by regulation) to welcoming fintechs, that may have begun their commercial life as a “plug and play” digital POS solution for SMEs, or as online only payment gateways, that became payment facilitators and ultimately progressed into direct acquiring principal members of the schemes. Some of these digital only players have also evolved into POS in-store acquirers deploying tokenisation to meet merchants’ needs for an omni channel full stack integrated payment acceptance solution.

All of that said, acquirers do have some support for some of the findings.

2.2 Reduction in services?

Acquirers found this proposal as somewhat misguided and that it is not the place of regulators to mandatorily require a reduction in services. This could lead to grouping of services and less transparency or less choice in accepting or declining a service.

2.3 Transparency

Naturally, acquirers would of course welcome the opportunity to pass on any reduction in fees. A few acquirers agree the regulators should be involved in approving mandates, but most don’t agree that such regulatory intervention is the right way forward. Price capping either directly or indirectly by reserving approval of mandates, can have unintended consequences for the market as a whole. Their primary issues relate to their own businesses, wanting to understand why certain fees are levied so that they can respond and help merchants navigate those fees and how they can implement required mandates and scheme change. Fuller transparency and explanation will also enable acquirers to ensure that at the merchant level, they can attribute and appropriately recover charges incurred on behalf of their merchants.

They would welcome enhanced information and explanation, particularly with respect to fees levied to ensure they are able to firstly understand the logic and reason for a mandate, particularly where it has a behavioural intent. Greater transparency and enhanced explanations would enable the acquirers and their merchants more effectively to change the behaviours and outcomes as intended, or to identify those services that may no longer be needed, or are less of a priority or relevance to their businesses.

Most acquirers would support some form of consultation on mandates. As noted, most don’t support escalation processes involving regulators and many would be very concerned that this would create an unmanageable and stifling process, that would also not foster UK led innovation. Most would support a process (only for the major mandates) that involved enhanced engagement and explanation. In that more constructive and industry led way, the acquirer community would be able to comment on the mandate and the rationale and ideally assist the schemes in delivering a clearer set of documentation that is right first time (which would limit the number of re-issues correcting earlier releases).

Some acquirers would welcome longer time periods to implement major mandate releases (and a minimum period for fee changes (including interchange)) – as this can be operationally burdensome and is a key component of general “blended” pricing reviews that occur periodically. They would also welcome clearer response times and service levels on queries, although this should be mitigated if the consultation process outlined above is effective.

Most acquirers agree that enhanced post transaction information coupled with greater information on mandate requirements would enable them to manage their businesses better, enabling them to identify charges to pass onto merchants or assist them in selecting or switching off certain optional services. Some commentary was received that charges to acquirers should be made in such a way that they are capable of being measured and applied at the merchant level.

The schemes already have programmes intended to assist issuers and acquirers in this area (and one large acquirer noted that there has been a recent significant improvement in engagement). These existing programmes could be enhanced to meet the suggestions outlined above, without the need for formal regulatory intervention. We would support a cross industry and regulatory engagement process to collaboratively deliver an outcomes focussed resolution, in strong preference to a regulatory prescriptive approach.

2.4 Impact on innovation

There is a concern that a regulatorily imposed consultation process could be inflexible and create an unwieldly bureaucracy demanding significant resource, with frequent interaction or intervention from regulators on price related issues that could materially delay innovations in the UK market, or result in other card markets receiving new products and services in priority to the UK. There are broader consequences to price related interventions that are not fully considered in the Interim Report. Some acquirers question the extent to which the regulators should be involved in veto-ing any particular mandate or what its role would be if the consultation process does not resolve differences of opinion on costs, transparency, requirements or timing. We think extreme care needs to be exercised here as the proposals could have a negative impact on innovation.

2.4 Concluding Remarks

Overall acquirers would welcome having some say in helping the schemes maintain the UK's position as a world leading card market. As noted, one or two have stronger support for regulators to be involved in the change management approval process, but the majority have a more measured approach. They would be satisfied with some enhanced engagement that would lead to a clearer understanding of why a change is needed, precisely what needs to be done, extended/minimum notice for fee changes and how they can access further information in a timely manner. Some flexibility on major mandate's implementation timelines would also be welcomed, although that needs to be carefully balanced against not placing the UK as a much more difficult place to launch products and services as compared to other markets.

3. Issuer commentary

UK Finance held discussions with issuers to understand their perspective on the PSR's Interim Report. Whilst some issuers think increased transparency on mandates and services for issuers and acquirers would be beneficial, they are somewhat critical of the need for continued interventions in the cards market, which works well (and were more concerned with the cards market "not working well" narrative). There are more important issues on the horizon for issuers, such as ensuring commercial sustainability and consumer protection in open banking, making authorised push fraud protection workable and fair and ensuring that the cards market can keep helping consumers by relaxing strong customer authentication rules into an appropriate risk based framework so that the everyday customer does not get stepped up to buy the same coffee, at the same time and at the same place every day. The focus should be on making the market more convenient, rather than over-inflating micro level concerns.

3.1 PSR's Focus on Cost Reduction – benefitting consumers and competition?

Through the three investigations into the card market, the regulatory approach is to drive down merchant costs. We think that on balance this is too narrow an approach and needs to consider broader banking market and consumer interests. The Interim Report notes that increased costs from scheme and processing fees will likely end up with higher acquirer costs and that will not likely be in the interests of consumers.

But is this consumer benefit argument backed up by any compelling evidence and is it considering the full interests of consumers above and beyond the price they pay for goods and services? Whilst cost efficiency is important, it is essential to recognise that payments are part of a broader economic chain, and that chain incurs costs - which will not simply disappear as a result of price caps. They will be absorbed elsewhere.

3.2 The acquirer / issuer net cost imbalance

The Interim Report notes that the PSR may look at the imbalance in relative net costs (fees less rebates/incentives) to issuers as compared to acquirers. The Interim Report notes the different market dynamic of issuing and acquiring, where acquirers "must-take" both schemes and cannot negotiate, whereas issuers do have the ability to negotiate. Whilst that finding might or might not be accurate, issuers think the PSR should consider very carefully about intervening in that overall "who pays" dynamic and have in mind what the current fee structure both reflects and enables. The current fee structure supports a balance of costs and benefits across the payment ecosystem and into broader markets. Merchants receive substantial benefits from card payments, including increased sales, reduced fraud, reduced handling costs and offering choice to consumers as to how they want to pay. The UK stands out internationally as one of the few markets in the world where consumers are generally not charged for their bank account or card payments. In addition, it is simply more efficient to collect fees on the merchant side, rather than try to collect fees on the consumer side.

3.3 Consumer Benefit

Issuers disagree with the extent of the merchant costs focus and point to how they are delivering excellent services to consumers. The issuer platforms are very stable and when combined with the acquirers' and the schemes' efforts, widescale or even local outages within the cards industry are extremely rare. The cards industry has performed very well during recent global technology challenges. In addition to "keeping the lights on" and providing resilient services, issuers keep consumers safe from cyber security threats, and of course fraud. They are responsible for authenticating consumers and protecting them against fraud (and usually reimbursing them for fraudulent use of cards, including for contactless transactions up to £100). They also carry s75 Consumer Credit Act liability, including for the full amount of a purchase when only a small proportion of the price was paid by credit card.

Whilst acquirers take the financial risk of chargebacks, the issuers invest heavily in people, consumer friendly workflows, card platforms, and systems to service their customers' when something has gone wrong with a purchase. As noted earlier, Carpetright customers who paid by cash, bank transfer or cheque will be left with no refund, whereas card customers will be fully protected (if they make a claim and meet the conditions)[13]. Issuers use advanced techniques to work with the schemes and acquirers to identify problem merchants so that they can be swiftly rooted out from the ecosystem, further protecting consumers. Issuers continue to innovate and provide a wide range of other services and benefits in addition to delivering what consumers need and protecting them from the threats that have harmed other sectors.

The Interim Report and other card market reviews do not satisfactorily recognise the materiality of the benefits provided to consumers by the cards industry, nor the costs and risks borne by the whole industry to ensure the cards ecosystem functions effectively. The current economic model is consistent with the BoE Paper outcome 4 statement: "*Infrastructure providers must have sustainable and coherent funding and revenue models to ensure they can invest in their resilience and modernisation*".

Changing the economic model in the cards sector away from that approach, could have two important negative consequences in consumer banking to which we turn to below.

3.4 Consumer Banking

Choice and innovation: A key aspect of the current fee construct is that it supports banking competition and choice. Challenger fintechs tell us that the current economic construct and balance of costs and income has supported significant innovation in the retail banking and payment account market, enabling new market entrants to launch and grow. These newer players would argue that without large savings, loans and mortgages books, they have to compete on consumer payments (largely served by cards). A reliable and fair balance of compensation and costs for card transactions enables these fintech challengers to attract inward investment in the early stages of growth. The overall costs and revenue dynamic has spurred on these challengers to invest in and differentiate their consumer payments experience. This in turn creates healthy competition so that the larger more established banks and building societies and other card issuers have to respond and often lead with their own innovations and customer service enhancements.

The sector as a whole is providing a range of benefits in consumer experience, safety and convenience, largely driven by new platforms enhancing in-app functionalities where the first movers where the often the fintechs. Developments include card freeze and freeze releases, almost real time payment functionality, increased payments tracking and visibility, budgeting and savings tools and the ability to split credit or charge card transactions post purchase and spread the cost of higher value items in a clear and transparent (and regulated and protected way).

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[13] See footnote 1 p3

Larger banks have also invested to deliver better outcomes for consumers, including for example by analysing consumers' subscriptions payments and adopting a contact strategy to ensure that those consumers can retain or switch off those subscriptions. Deeper analysis of claims has enabled some large issuers to identify problem merchants and approach the market and the relevant acquirers. These actions help to reduce fraud but also flag genuine merchants who are not delivering what they promised to deliver to their customers. Appropriate risk actions can then be taken across the ecosystem which ultimately benefits consumers.

The costs of investment by fintechs and large issuers alike do not come with any associated direct income stream. They are funded by the overall economics of their participation in the card networks.

Millions of consumers now benefit from these enhanced and differentiated services. Whilst the regulatory concerns have been about competition in the cards sector, there is an under-appreciation of the positive impact that the card system has enabled. When assessing if the card market is functioning well or not, we suggest that we need to take into account broader considerations in the payment account market and the extent to which the cards economic model has facilitated growth, innovation and improved customer experience and given consumers more choice.

Free to issue banking: The UK is relatively rare in that consumers obtain all the benefits provided by cards, usually for free if in credit (of course premium paid for bank account/card account options are available too): issuers do not pass transactional costs onto their consumers. Issuers are concerned that changing the economic model in cards could have undesirable consequences for a largely "free to issue" market. Either consumers may need to be charged for their bank account or payments that go through them, or the costs of providing cards will have to be funded by other consumer banking products such as loans, overdrafts, savings and mortgages.

3.5 Concluding Remarks : Broader Outcomes and Approaches

If the focus of the three assessments on whether the cards market is working well had more regard to considering merchant and consumer value, we think different and more balanced conclusions would have been made – such as is found in the Future of Payments Report.

Issuers want the card market to evolve and innovate and think that the best way to do that is to have an outcomes focussed approach led by industry, rather than overly interventionist or prescriptive approaches that will render the cards industry as internally rather than externally focussed.

There is concern that in seeking to protect consumers against price rises at merchants because of perceived higher merchant card fees, there is little analysis in any of the card scheme reviews about what consumers really value or would prefer more broadly.

Payments do not exist in a vacuum. They are part of a connected commerce economy and the personal banking sector and payments (cards especially) bridge those sectors. A broader approach on consumer outcomes might have considered whether consumers think it in their best interests to have reductions in merchants' costs (in the hope they trickle through to consumer goods prices) in exchange for (a) paying for their payment account services as a monthly charge or it being paid for through other services like loans or (b) having less choice as to their payment account provider(s).

[i] UK Finance Payments Report 2024 https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/uk-payment-markets-2024

Vanquis Banking Group

PSR - Market review of card scheme and processing fees

Vanquis Banking Group ("Vanquis") welcomes the opportunity to respond to the Payment Systems Regulator's latest consultation: Market review of card scheme and processing fees.

Introduction
Vanquis occupies a unique role in the UK banking system as the largest specialist finance provider for financially underserved customers, serving 1.75 million people through our core banking services and the Snoop App, which helps users save up to £1,500 a year on household bills. We offer tailored products and services that promote financial inclusion and social mobility, underscoring our purpose: to deliver caring banking so our customers can make the most of life's opportunities.

Response to Consultation

Rising fees and limited negotiation: As a Visa Credit Card issuer exclusively in the UK, Vanquis has observed a consistent rise in Visa's fee pricing. Services such as Card Updater and Token Vault, once free, now incur fees. Despite a 12-month lead time for these changes, opportunities for negotiation are minimal, forcing issuers to comply with the new fees.

Impact of cross-border interchange fees: While the post-Brexit increase in cross-border interchange fees by Visa and Mastercard benefits issuers, it negatively affects customers and the broader payment ecosystem. Such significant adjustments should undergo a consultation process to ensure fairness and transparency for all stakeholders.

Dominance of Visa and MasterCard: Cards remain the most popular payment method, with alternative options like digital wallets and PayPal also relying on Visa and Mastercard's infrastructure. This reliance underscores the dominance of these card schemes, making it challenging for alternative payment methods to gain traction.

Opportunities for innovation: As a credit lender, we see ample opportunities to introduce innovative payment options to enhance market competitiveness. Visa currently offers robust fraud and dispute management, while Open Banking requires further scaling to reach critical mass and achieve similar levels of protection.

Visa's commitment to innovation: Visa's investments in AI and security-led technology to reduce fraud and increase card acceptance demonstrate their commitment to maintaining leadership in the payment industry.

Views on consumer steering and wallet operators: We concur with the PSR's findings that consumer steering and decisions by wallet operators provide limited competitive constraints on Mastercard and Visa. The small number of effective alternatives and increased friction in the payment process hinder these strategies from being more impactful.

Analysis of alternative services: There are currently insufficient alternatives to Mastercard and Visa’s optional services available to acquirers and merchants. This lack of competition forces acquirers and merchants to accept unfavourable terms and pricing, impacting overall market efficiency and fairness.

PSR's role and recommendations: The PSR's efforts to limit unjustified Visa pricing changes are welcomed. However, this must be balanced with initiatives to develop a broader UK payment infrastructure, facilitating alternative payment methods. Launching new schemes is challenging due to Visa and Mastercard's entrenched infrastructure, requiring significant effort to overcome resistance.

Feedback on remedies and transitional provisions: We support the PSR’s proposed remedies to enhance competition and transparency. Prioritising the development of a broader UK payment infrastructure and mandatory consultation on fee changes are crucial steps. Additionally, transitional provisions should be considered to ensure smooth implementation without undue disruption to market participants.

We appreciate the PSR's initiative in addressing these issues and encourage continued efforts to create a more competitive and transparent payment landscape in the UK.

Virgin Money

Virgin Money response to the PSR Market review of card scheme and processing fees – Interim report

No.	PSR	Virgin Money Response
1	Do you have any views on how we have described the facts and considerations we have identified in Chapter 3? Do you think there are any other factors we should consider as relevant context to our market review?	The facts and considerations identified in Chapter 3 are well described and we do not think there are any other factors that should be considered as relevant context to the market review.
2	Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to ineffective competitive constraints on the acquiring side?	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
3	Do you have any views on our analysis and provisional finding that the constraint that consumer steering can pose on Mastercard and Visa is limited by the small number of effective alternatives and by the increased friction that steering could generate in the payment process?	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
4	Do you have any views on our analysis and provisional finding that decisions by operators of wallets are unlikely to result in an effective competitive constraint on Mastercard's and Visa's fees?	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
5	Do you have any views on our analysis and provisional findings that: (i) alternatives available to acquirers in the UK do not provide an effective competitive constraint on decisions made by Mastercard and Visa in the supply of core processing services; and (ii) that no alternative suppliers of core processing services currently operate in the UK?	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
6	Do you have any views on our analysis and provisional findings that: (i) acquirers and merchants typically have limited alternatives available to them for Mastercard and Visa's optional services; (ii) acquirers and merchants face significant implications if they do not use these optional services; and (iii) acquirers and merchants have limited countervailing buyer power when negotiating prices for these optional services	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.

No.	PSR	Virgin Money Response
7	Do you think there are any other competitive constraints on Mastercard and Visa in the supply of optional services which we have not yet considered, but that we should consider? If yes, please describe those constraints and their effect on Mastercard and Visa's ability to set prices of optional services.	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
8	Do you have any views on the alternatives to their own optional services suggested by Mastercard and Visa as described in Annex 4? If yes, please explain whether you consider the alternatives to be suitable for all or some purposes and the extent to which they compete with Mastercard and Visa for the supply of a particular optional service (or services).	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
9	Do you have any views on the optional services that we have not focussed on in our analysis (in particular those presented in Annex A to Annex 4)? If yes, please explain what these additional optional services are and what competition concerns you have around the supply of these services	Chapter 4 focusses on the Acquiring side. As Virgin Money is an Issuer, we do not have any specific views from an Acquiring perspective.
10	Do you have any views on our analysis and provisional finding that Mastercard and Visa are subject to competitive constraints on the issuing side?	We agree with the PSR's provisional finding that Mastercard and Visa are subject to competitive constraints on the issuing side, We agree that these constraints are mainly a result of competition between Mastercard and Visa, rather than with providers of other payment methods, as each scheme competes to win issuing portfolios. We have nothing to add regarding the analysis undertaken by the PSR.
11	Do you have any views on our analysis and provisional finding that the revenue from the acquiring side accounts for the large majority of net scheme and processing fee revenue for both card schemes in recent years?	As per 5.40 on page 79 "Given our provisional conclusion that Mastercard and Visa face stronger competitive constraints on the issuing side than on the acquiring side, in our analysis of market outcomes, developed in Chapter 6, we have focused on the acquiring side" Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective.

No.	PSR	Virgin Money Response
12	Do you have any views on our analysis and provisional finding that the average scheme and processing fees (as a proportion of transaction value) paid to Mastercard and Visa by acquirers have increased substantially in real terms in recent years?	As per 5.40 on page 79 "Given our provisional conclusion that Mastercard and Visa face stronger competitive constraints on the issuing side than on the acquiring side, in our analysis of market outcomes, developed in Chapter 6, we have focused on the acquiring side" Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective.
13	Do you have any views on the extent to which changes in average fees levels in recent years have been accompanied by commensurate changes in: o The value to customers of the services provided by Mastercard and Visa? o The quality of service provided by Mastercard and Visa? o Innovation by Mastercard and Visa? o Aspects of the transaction mix or characteristics of acquirers or merchants that we may not have fully captured in our econometric analysis (see Annex 7)?	As per 5.40 on page 79 "Given our provisional conclusion that Mastercard and Visa face stronger competitive constraints on the issuing side than on the acquiring side, in our analysis of market outcomes, developed in Chapter 6, we have focused on the acquiring side" Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective.
14	Do you have any views on our analysis and provisional findings in our profitability analysis? In particular: o Are there any factors that we have not covered in our report that may provide information on the relative profitability of Mastercard's and Visa's UK operations compared to their global and European operations? o Are there any other comparators that have greater similarity to Mastercard's and Visa's UK operations than those that we have identified in our report?	As per 5.40 on page 79 "Given our provisional conclusion that Mastercard and Visa face stronger competitive constraints on the issuing side than on the acquiring side, in our analysis of market outcomes, developed in Chapter 6, we have focused on the acquiring side" Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective.
15	Do you have any views on our analysis and conclusion that issuers have a generally positive experience regarding the information they receive from Mastercard and Visa (such that they are able to access, assess and act on that information)?	We are a single-homing Issuer with Mastercard and agree that from our perspective, we generally have a positive experience regarding information received and that we can access, assess, and act on information. However, as discussed re: possible remedies, we also agree that improvements can be made in relation to: - simplification/rationalisation of fees (but not bundling). - standardisation of fee communications, including clear flagging of the mandatory or optional nature. - taxonomy of pricing announcements to

No.	PSR	Virgin Money Response
		make searching for fee information easier (rather than being embedded in regular weekly announcements).
16	Do you have any views on our analysis and assessment of the materiality of issues experienced by acquirers?	Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective but we can sympathise with the challenges that Acquirers face in relation to understanding the complex nature of fees imposed by card schemes, based on our own challenges as an Issuer
17	Do you have any views on our analysis and assessment of our analysis in respect of behavioural fees, and acquirers' ability to pass these fees on to merchants (as set out in Table 4)? If so, do you have any experience and/or views how widespread the issues identified are and their underlying cause or causes?	Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective.
18	Please provide your views on the prevalence (or otherwise) of acquirers having to purchase optional services to identify merchants incurring behavioural fees	Virgin Money is an Issuer so we do not have any specific views from an Acquiring perspective.
19	Do you consider that we have omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers or merchants in our assessment? If you do consider that relevant outcomes have been omitted, please explain what these outcomes are.	We do not consider that the PSR has omitted issues of concern regarding non-price outcomes experienced by issuers, acquirers, or merchants.
20	What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?	All the proposed remedies carry some merit. As discussed at the Issuer round table though, the priority is probably to aim to encourage card schemes to simplify/rationalise their fees (but not bundle them) and to aim to standardise the requirements for notifying Issuers, Acquirers and Merchants of fee changes. This should include a minimum lead time requirement.

No.	PSR	Virgin Money Response
21	Are any transitional provisions needed?	Setting a minimum lead time for fee introductions or changes to fees being implemented would be a helpful transitional provision.
22	Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?	We think other remedies should be considered as the priority and regulatory financial reporting should only be considered as a secondary measure, once the benefits for the industry have been fully considered/determined.
23	Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?	Yes, this should be considered. Similar to fair value outcomes from Consumer Duty, there would be merit in conducting assessment exercises. How do schemes evidence that any financial decisions they are making provide fair value outcomes for Issuers, Acquirers, Merchants, and customers? Full transparency of a pricing change would be beneficial, where a scheme should aim to outline the justification for the increase. This should include transparency and a reflection of the cost. Timely notification (good lead times) would equally be helpful because sometimes, a price introduction or increase is implemented in-year, which impacts the financial plans of businesses within their financial years. If a lead time was a minimum of 12 months, it would allow businesses time to calculate the impacts and then provision their costs accordingly for the following financial year.
24	Do you have any views on ways in which other stakeholders, for example merchants, merchant associations and consumer groups could participate in consultative discussions with the card schemes?	The process should be similar to Consumer Duty in terms of assessing fair outcomes i.e. a Scheme should communicate draft proposals to the industry, after which the participants should be afforded adequate time to consider and respond with their views. As described in our response to Q23, better transparency would be helpful for all. Justification of price introductions or increases etc.

No.	PSR	Virgin Money Response
25	Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?	Virgin Money is an Issuer so we do not have any specific views from an Acquiring or Merchant perspective. However, as per Q20 response, more detailed, timely and accurate information in respect of fees charged to Issuers would be helpful.
26	On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?	There is a chance that that roll-out of these remedies will cause an impact for all market participants. As an Issuer, it is difficult to predict the downstream impact, should the Acquirers and Merchants face additional cost. However, we consider any costs to Issuers to be indirect costs re: implementing changes. It would likely to be more beneficial to all if the implementation of remedies is progressed as opposed to continuing the status quo, given the findings in this report. Similar to any regulatory changes, there is a cost justification exercise for Issuers, who can then make informed decisions around absorption into wider financial plans.
27	Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.	We are of the view that the remedies proposed should be introduced before resorting to regulatory intervention. We are not close to the conversations being held with schemes so it is difficult to understand the possible success of remedies proposed within timelines that may be set.
28	Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.	We are of the view that the remedies proposed should be introduced and agree that the initiatives that the PSR has considered to encourage steering are unlikely to remove the need for intervention. As stated in our response to Q33, we do not believe that anything should be imposed that has a downstream impact on a customer's seamless ability to transact i.e. any increased friction should be avoided.

No.	PSR	Virgin Money Response
29	Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.	We agree that implementing a price cap would be challenging based on findings to date and we do not believe that price control should be considered in the first instance. As stated within our responses, the priority should be to focus on a simplification/rationalisation of fees in the first instance, coupled with standardisation of communications and implementation lead times. Once progress can be made across the ecosystem with the initial priorities, consideration can then be given again to the possibility of controlling pricing through some means i.e. availability of simplified information should help with that challenge.
30	Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.	We agree that the remedies should be implemented. Reasonable timeframes should be imposed for schemes to implement the remedies and there should be a direct correlation between the remedy and the outcome. Consideration should be given to how long to implement a remedy for. When will it be reviewed? Who/how would the outcome be reviewed? It is difficult to give a recommended timescale without further context of what intends to be delivered as a remedy, how it is intended to be delivered and what it is trying to achieve. NOTE - Our interpretation of this question is that "We agree that any remedies imposed should be time limited in the sense that a timeframe be set to assess the effectiveness of that remedy in achieving its desired effect".
31	Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.	We are happy with the remedies that have been identified for now. But there should be scope to review the outcomes and for the remedies to evolve over time.

No.	PSR	Virgin Money Response
32	Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?	Implementing fair value remedies ensures that customers are paying charges that accurately reflect the cost attributable to transacting by card in order to pay for goods & services. Ultimately, Merchants will continue to pass on the additional Acquirer and scheme costs to customers by raising prices. Transparency across the ecosystem would enable a better understanding of the costs incurred through the card payment journey.
33	Is there anything else we have not considered, and you think we should consider?	The review has been thorough to date. The main consideration from our perspective as an issuing bank is that any remedies implemented must not have a detrimental impact on the customer journey. We do not want to impose anything that has a downstream impact on a customer's seamless ability to transact.

WorldPay

worldpay

PSR Market review of card scheme and processing fees interim report

Worldpay (UK) response

July 30, 2024

Executive Summary

Worldpay is a long-standing member of Visa and Mastercard and this relationship is at the core of our value proposition to merchants. We are encouraged by some recent improvements introduced by Visa and Mastercard to provide further transparency, which seems to be in line with some of the proposals made by the PSR.

However, as highlighted in our previous communications to the PSR, we consider there may still be room for improvements to the way the schemes apply and change their rules and fees. Such information could be provided in a more consistent, open, and timely manner. We would support any efforts towards a more proactive approach adopted by the schemes in seeking feedback from acquirers on changes they plan to introduce. This would help acquirers to be better prepared for assessing the potential impact on their merchant customers and operations.

We are pleased that our feedback to the PSR has been considered in the interim report and we support the transparency objectives behind the proposed remedies. However, we would encourage the PSR to fully consider how those remedies will be implemented in practice, to prevent any unintended consequences. For instance, excessive transparency could potentially lead to unnecessary complexity and further costs, both for our internal operations and our merchants. We would welcome further feedback from the PSR at the end of this consultation.

In our response, we only address questions in relation to the remedies proposed by the PSR. Overall, we find remedies 3 and 4 to be material and note that they align with our previous feedback to the PSR on scheme fees. We do not provide specific views on the proposed remedy 1 in relation to regulatory financial reporting as it is specific to the schemes.

Consultation response

Question 20 • What are your views on our proposed remedies? Which remedy or category of remedy set out in Chapter 8 do you think we should prioritise implementing?

Overall, we are supportive of the PSR's intention to reduce complexity with scheme fees and improve the quality of service provided by the schemes to acquirers. We consider remedies 3 and 4 to be material and they align with our previous feedback to the PSR on scheme fees.

Question 21 • Are any transitional provisions needed?

N/A

Question 22 • Please explain (with reasons) if you think we should be considering a regulatory financial report remedy?

N/A

Question 23 • Please explain (with reasons) if you think we should be considering possible mandatory consultation and timely notification requirement remedies?

We are supportive of the notification requirement as one of the key issues is the recovery of fees linked to late and/or unclear changes in scheme fees. The changes in scheme fees are charged to acquirers, but schemes do not always provide them with the appropriate information to be able to recover that cost from merchants. It can be that the data is not made available and/or is being provided too late for us to be able to pass on the extra cost to merchants.

We see the benefit of having a formal requirement for schemes to inform the market of potential changes to fees ahead of their implementation. To avoid the consultation process turning into a mere notification of change by the schemes, any consultation on envisaged fee changes by schemes must take place early enough in the process for acquirers to have an effective influence on the outcome. When a change is contemplated, we would recommend a minimum period of 6 months to provide enough time for review and consultation between the schemes and acquirers, followed by another minimum period of 6 months to implement potential changes.

At this stage, it remains unclear as to what extent the schemes would be bound by the feedback received during the consultation, and the role the PSR will play in monitoring this process and its outcomes. We would welcome further feedback from the PSR at the end of this consultation.

Beyond consulting on envisaged changes when introducing major developments or changes to scheme rules (such as instalment payments capability), a more collaborative and consultative approach with the members of the scheme could be adopted by setting up working groups of issuers, acquirers and merchants in advance of changes being introduced.

While we welcome the proposed requirement for the schemes to consult with acquirers on changes, this type of exercise could become unnecessarily resource intensive and counterproductive in practice if acquirers find themselves targeted with too many consultations on granular changes. A threshold for consultation could be established for this remedy to be effectively productive.

Question 24 • Do you have any views on ways in which other stakeholders, for example merchants, merchant associations and consumer groups could participate in consultative discussions with the card schemes?

It would not be appropriate for merchants to be involved in a consultative process, including for the development of new services. Not all merchants have enough time and capabilities to comprehend such information and must often rely on their acquirers to provide this information. Merchants without adequate resources to participate in the consultation process may be unable to advocate for their interests, which may differ from other merchants who might have other means to access such process.

The two main contractual relationships are between the schemes and the acquirers, and the acquirers and the merchants. Contractual arrangements between acquirers and merchants may vary along with the level of information needed. Adding non-contractual relationships could generate unnecessary complexity and confusion. Acquirers should maintain their own relationships and are responsible for making the information available to merchants. While acquirers should remain the conduit of information between the merchants and the schemes, the schemes should ensure that acquirers are provided with the right type and amount of information to then appropriately cascade any fee change to their merchants.

Question 25 • Please explain (with reasons) if you think we should be considering possible remedies to address complexity and transparency issues? In particular, do you think that more detailed, timely and accurate information in respect of behavioural fees would help acquirers and merchants? Do you think a taxonomy or system for classifying fees into different categories would help service users?

In addition to the key improvements observed with the schemes recently, enhanced tools and agreed taxonomy would certainly help acquirers and merchants to better understand services and billing. To this effect, the PSR's proposed remedy for card schemes to develop a pricing methodology for UK pricing decisions could be a positive development.

Behavioural fees invoicing could be improved for acquirers to accurately pass on the cost. Too often acquirers are left 'out of pocket' for fees that could not be properly assigned to a merchant or fees that took too long to be clarified by schemes.

The proposal to standardise the information provided by the schemes to foster comparability would bear little impact on acquirers since they have to offer both to their merchants. However, we would still welcome standardisation of the information being provided as it would bring greater consistency and clarity needed to identify the fees, track changes to these and pass them on accurately to merchants. This should include clear identifiers for all billing events, fees, and merchants.

Behavioural fees and the complexity that schemes have integrated can make it difficult for acquirers to assess these without extra reporting to build them into their systems. If a data feed is needed for acquirers to build their offering, schemes could provide further support.

When the data is available, reporting should be provided by the schemes through their portals and billing IDs should always be included. Appropriate reporting by the schemes will translate in a better service for our merchants as we would be able to build it into our systems and pricing. Schemes should provide acquirers with data feed that would provide acquirers with billing events and where each fee and merchant are clearly identified and identifiable. Where data held by schemes are imperative for acquirers to effectively assess and pass on the costs, schemes should provide them at no extra cost, and in advance to give acquirers sufficient time to test the change.

As a principle, a reasonable level of information should be made accessible free of charge to members of the schemes. Alternatively, an industry protocol governing the provision of information by schemes to their members could be envisaged to improve transparency on fee changes, and to promote greater engagement in connection with technical issues relating to information available via online portals.

Where more information is needed from the schemes, we would welcome having measures in place such as Service Level Agreements (SLAs), similar to those existing for acquirers to respond to queries from the schemes. While we have recently seen key improvements coming from the schemes, reasonable SLAs or equivalent commitments could certainly enhance communication. In practice, the schemes could have a standard SLA in place (for example, 3 days) to reply to members queries, and where it cannot be met, the schemes could have policies in place to update members on progress. For instance, a portal enquiry should not be closed due to inactivity when that inactivity is on the scheme's side. A warning could be provided at least 3 working days in advance to prevent this.

While we support the PSR's ambition to remove complexity and increase transparency, some of the proposed remedies could bring undesirable consequences. For instance, instead of potentially mandating a reduction in services, the focus should be on ensuring acquirers and third-party providers are able to compete and not faced with behavioural fees for not taking a service. Mandating a reduction in services could negatively impact competition and have unintended consequences such as denying services acquirers/merchants need or making the procurement of those services excessively bilateral and inefficient, potentially more expensive or lead to a bundle package of services where some of the line items are not required.

Providing acquirers with clear justification for certain fees and changes, especially temporary market innovations and development fees, should be a key focus. For such fees, the schemes could present acquirers with a plan for completion of these innovations/developments and the subsequent decrease of the related fees.

[✂]

Question 26 • On the assumption that some or all of our proposed remedies are taken forward, do you have views on whether the costs (implementation or other) incurred by various market participants, including the schemes, issuers, acquirers and merchants, would be greater than the costs they would typically incur when a change in fees is announced? In other words, will the costs associated with implementing our remedy be captured (or absorbed) through 'business as usual' activity?

Given the high-level nature of these remedies, it is difficult to estimate potential costs and impact on resources at this stage. With further details on the implementation of such remedies, market participants, including acquirers, will be able to provide a comprehensive cost/impact assessment. Unintended consequences such as excessive complexity could make these remedies more costly to implement than the current model.

On consultations, it would not be advisable to consult on every single change, it would add untenable pressure on participants and likely add excessive complexity. These requirements should be carefully thought through to increase transparency and simplify billing/pricing information for acquirers and ultimately, merchants and their customers.

Question 27 • Do you agree that the initiatives we considered to boost competition are unlikely to achieve the outcomes we would want to see in a timescale that removes the need for regulatory intervention? Please explain your position either way.

We note the report's focus on open banking as the main alternative to cards. While we support the development of open banking as an alternative payments' method that could offer more choice to merchants, we consider that open banking and card payments cannot be treated as equivalent today and in the near future, as we have outlined in our previous responses to the PSR. We see open banking and A2A payment methods as an additional choice and a complement for specific use cases, not a competitor to cards.

Question 28 • Do you agree that the initiatives we considered to encourage surcharging or other forms of steering are unlikely to remove the need for regulatory intervention? Please explain your position either way.

N/A

Question 29 • Do you agree with that a price cap or price control could not be implemented following this market review given the issues identified in this interim report, in particular with regard to collective robust and reliable data from the card schemes? Please explain your position either way.

N/A

Question 30 • Should any remedies be time-limited? If so, please provide a recommended timescale together with your reasons.

We have consistently raised the need for further improvements in the way the schemes communicate on fee changes. The proposed remedies to consult and be more transparent should constitute long-standing commercial practices.

Question 31 • Are there other remedies we should consider on either an interim or long-term basis? We would be particularly interested in evidence to demonstrate why any such remedy was proportionate and capable of being effective in addressing the problems we (or you) have identified.

N/A

Question 32 • Are there any relevant customer benefits that we should consider as part of our assessment of any possible remedies?

N/A

Question 33 • Is there anything else we have not considered, and you think we should consider?

We are generally supportive of the PSR work and proposed remedies; however, it is also necessary to highlight the risk that could come with these. There is a risk that acquirers could be faced with an unsustainable increase of operational costs required for the implementation of these remedies, such as platform changes.

The report notes the difficulty of collecting UK-only data from schemes due to the way they operate regionally. We encourage the PSR to take into account that divergence between UK and EU regimes could force both schemes and acquirers to split their operations and platforms, which could be costly and outweigh the benefits that the proposed remedies could bring.

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