**PSR** Payment Systems Regulator

Market review into the supply of card-acquiring services

Responses to the merchant survey questionnaire consultation

December 2019

# Contents

Names of individuals and information that may indirectly identify individuals have been redacted.

# Association of Independent Risk & Fraud Advisors

| **From:** | |
|---|---|
| **Sent:** | 09 July 2019 12:37 |
| **To:** | cards@psr.org.uk |
| **Cc:** | psrcommunications@psr.org.uk |
| **Subject:** | Re: Payment Systems Regulator (PSR) Consultation on our merchant survey questionnaire |

Dear **Stakeholder Engagement and Communications**

Thank you for forwarding this document. We will not address any of the detail in the document: but have the following comments / predictions from talking to many merchants, acquirers and other third parties engaged in the processes of acquiring over many years. (Note: several of our members have been actively involved in acquiring - especially risk management - for over 30 years):

1. The length of the Merchant-survey is likely to to take the questioners much longer than the estimated 20 minutes OR is likely to yield a significant volume of uncertainty in the answers that are solicited (this is because all parties involved in the survey are likely to be/get very confused (see below).

2. The list of acquirers has omitted some key UK acquirers and some key non-UK acquirers that operate in this market.

3. There are MANY third-party processors (TPAs and PSPs, PFs and other parties with similar acronyms), sales organisations (usually called ISOs), gateways with additional functions, tied agents and untied agents of acquirers and of others in this list, as well as several 'blends of these types of organisation'. Your survey people (and the merchants) will encounter and become very confused by these (we are confused, and we work intimately within this sector!), OR they will oversimplify the answers. A lot of these multitude of organisations, do confuse the situation (and thereby the merchants too) by advertising and/or 'appearing as though' they are themselves the acquirers to the merchants.

4. There are a number of these parties that are actively in the process of becoming other formalised parties within the 'list' above: and most notably many who are working on becoming acquirers and 'switching their portfolios' and in this process alluding to them already being the acquirer in their documentation.

5. Accordingly, MERCHANTS (all sizes) are also confused too as to who is who, and who is the acquirer (even if they know what an acquirer is!). The questionnaire assumes that merchants will understand the questions, which because of the ambiguity on the market (as above) we do not understand many of the questions already.

6. This will mean that you will find that merchants will name more acquirers than you will conceive is possible (or simply not knowing the answers to most/many of the questions), and be unable to explain who does what for them. Your interviewers will largely be as confused (as us and as the merchants) and will be unable to ask appropriate clarifying questions. In our estimations, this will probably ensue in the majority of the surveys.

7. There is little in the questionnaire that convinces us that the PSR or the questionnaire producers understand how they will deal with this. We are also uncertain as to what the objectives of the PSR are, and how this questionnaire will be satisfy the objectives with the answers that will be obtained. We do not envy those tasked with the understanding of the survey answers.

8. This product and the many incumbents in what is a fast changing, highly flexible and innovating market (not always through the acquirers themselves, but through all the many ancillary parties), will therefor not lend itself to the PSR understanding the market sufficiently enough to be able to conclude and direct the market in say directions:

a) To enforcing a form of standardised pricing or to commoditise pricing: because of the infinity of product types, parties and the mixed up nature of all the parties to the costs (where the acquirer fees are only a part thereof).

b) To enforce transparency of services, when the acquirers are often not in control of this or are governed by a confused markets and so many other innovating and changing intermediaries that are growing in importance in the 'food chain'.

c) To be able to evolve a strategy of 'acquirer switching' when there are so many other parties that 'make-up' the architecture and infrastructure that are far outside the control of the acquirer.

**NB**: Of course, there are exceptions to this position, but these exist in a few of the major acquirers who have purchased their own companies and 'built a complete service model'. This model is to some degree falling apart, and being disintermediated as 'the market' operates against it and as customers move away from its inflexibility, and as innovators keep introducing more and more niche products and services faster than these traditional acquirers can act or acquire such innovative parties or to copy their products/services.
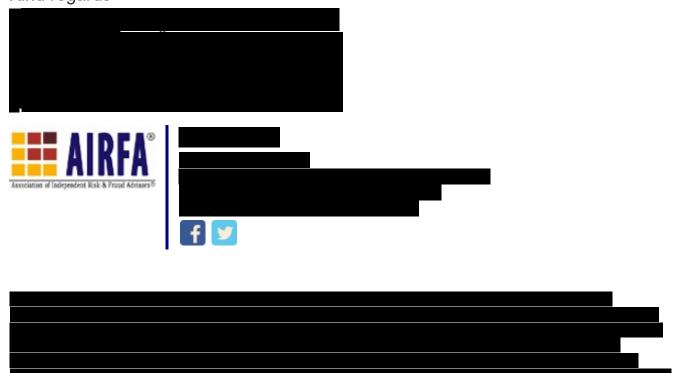
**WAY FORWARD**
Once you have undertaken this survey, and when you have collated the raw-results: we would be delighted to find members from within AIRFA here that you can engage to:
- Unravel the findings
- Explain the context of the findings
- Try to 'draw the pictures' that explain the findings
- Help draw together recommendations for ACTION and to drive the next stages of your market discovery and DIRECTION.

At this stage we are more worried for the PSR team and how to take this forward in a way that can increase competition, encourage innovation, remove the lack of transparency and drive the UK market outwith the restraints of the global market that operates (sometimes) in isolation of the market itself and in the interests of merchants and consumers (including some major Mastercard / Visa issues).

Good luck.

Kind regards

# Blue Scorpion Limited

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| **From:** | ████████████████████████ |
| **Sent:** | 05 July 2019 12:24 |
| **To:** | cards@psr.org.uk |
| **Cc:** | ████████████████ |
| **Subject:** | FW: Payment Systems Regulator (PSR) Consultation on our merchant survey questionnaire |

Dear Cards@PSR,

Many thanks for the opportunity to review the draft questionnaire for use with your upcoming SME survey.

I think it looks comprehensive in terms of what it asks about the various considerations that a merchant goes through pre / during / post change and why they made their decisions; what it appears to be missing, and is why I became a stakeholder, is anything relating to PCI.

It needs to drill into the guidance the merchants receive (or not) to become compliant and the level of fines and warning communications they get about any remedial action the Acquirer / Processor might take or, intends to make if the merchant takes no action.

- Many merchants remain unaware of the seriousness that the inaction they take could mean to them around susceptibility to breach.
- Acquirers vary hugely in terms of levels of support and guidance they provide in order to help a merchant become compliant – no one is really taking appropriate action to address these issues.
- All Acquirers are generating huge streams of 'dirty money' revenue each year through fining merchants for non-compliance and many of them are not turning that revenue back into comprehensive compliance programs, with a concentrated approach to help their SME base avoid heavy penalties on a monthly basis.
  - Global Payments for example, are now charging their merchants £75 per MID, per month for non-compliance! This has risen from a previous amount of £50 per MID, per month, displaying clearly that GP see this as a growing revenue stream rather than something they should be addressing and attacking their portfolio on, to turn it around into a compliant book. They are not alone in their thinking that this is a revenue stream not to be ignored.

I think the questionnaire should be addressing this important issue, as the main problem in the UK still remains around the SME portfolios across the Acquirers, and merchants remain still largely unaware of the fines they pay each month, as Acquirer statements even seek to mask the acronym for the fines these days making it harder, not easier, to draw the issue to a merchants attention.

I trust this feedback is of use and that you will seek to address this in the next draft. If you have any questions, please do not hesitate to contact me and I shall be happy to discuss this issue at length.

In the meantime, I look forward to hearing your thoughts and/or reviewing the next iteration of the questionnaire.

Many thanks,

**Regards,**

# Mastercard

# Mastercard response to PSR '*Consultation on our merchant survey questionnaire*' MR18/1.5

12 JULY 2019

mastercard

## Introduction

Mastercard welcomes both the PSR's decision to conduct this research and the publication of the questionnaire for consultation.

Whilst we are strongly supportive of the overall direction of the proposed merchant survey, we outline in this response concerns about some of the questions which we believe risk generating unreliable or even misleading results. In particular, we are concerned about the approach taken in section D – Other payments channels, which seems at odds with the remainder of the survey and as a result may be answered by respondees who do not (and cannot) have the relevant knowledge or expertise to provide reliable responses. We recommend that the PSR consider whether this section should remain in the survey, as we believe that it might undermine the overall robustness.

We are also concerned that the very short timeframe allowed for the consultation seems unjustified in view of both the overall timeframe for the market review, as well as the fact that the survey itself is significantly delayed from the originally anticipated date. Potentially, this will limit both the number and quality of responses received, to the detriment of the survey itself, the robustness of the results and the conclusions which can be drawn from them. Mastercard hopes that the short timeframe is not an indication that this is not a genuine consultation and that the PSR will not take views into account before finalising the questionnaire.

In the interests of transparency, Mastercard assumes that the PSR intends to publish the results of the survey, but would welcome confirmation and clarity as to when that might be. In the interim, we assume that there is no reason why the PSR cannot publish the final version of the questionnaire to allow stakeholders to understand what changes have been made as a result of the consultation.

More generally, the PSR has published no update on the overall timeframe for the market review set out in the final Terms of Reference in January, despite the fact that several subsequent publications have been delayed. The PSR will recognise that a large number of industry participants have a strong interest in engaging with the market review and would very much welcome clarity on any amended timeframe and specifically the likely time period for the publication of the interim report.

## A - Screener

The identity and expertise of the person responding to the survey is of paramount importance and Mastercard is concerned that the limited information contained in the screener may not be sufficient to ensure that the correct person is chosen.  Our concerns broadly fall into two categories:-

- Is the person who is speaking to the research agency the correct person to answer the questions being asked?
- Will the person have access to the necessary information to be able to provide accurate responses, without advance notice of the types of questions which will be asked?

We will address each point in turn, but in both cases we are concerned that the current approach is not robust and may produce unreliable results.  In particular, we are concerned that by the time the respondee realises that they are unable to provide accurate responses to questions which are increasingly beyond their remit or expertise, they may nevertheless decide to continue with the survey, despite the inherent potential unreliability of their answers.

We believe that the difficulties will arise because the screener only proposes to inform potential respondees that the survey is "*to gather evidence on whether the supply of card-acquiring services is working well for businesses …*" That is an insufficient explanation of the nature, scope and depth of the questions which follow and will not allow for the best respondees to be accurately identified and appropriately prepared.

In order to address both of the concerns which we outline below, we recommend that the screener contains a more detailed description of the nature of the survey and the required knowledge/expertise of the respondee.  At the outset, it should provide an overview and broad summary of all of the types of questions to be asked in order to maximise the prospects of receiving accurate responses.

### *Identity of the respondee*

The screener asks only to speak to "*someone who is responsible for making decisions about what providers your business uses for card-acquiring services*", further details of 'card-acquiring services' may be provided.  However, many of the questions extend significantly beyond the factors related to that decision and in some cases, are entirely unrelated to it.  For example:-

- Details of the turnover and card turnover of the business
- Payment acceptance methods, proportion of each and revenue generated
- Reasons for preferred payment acceptance method
- Use of steering, methods of steering, reasons for steering, effectiveness of steering, responses to steering
- Reasons for and consequences of not accepting Mastercard and Visa cards

Whilst the choice of card-acquirer <u>may</u> be related to the merchant's preferred choice of payment method, it is clearly distinct from it.  Therefore, there is no reason why the person responsible for buying card-acquiring services would be able to provide reliable responses to these other questions (and the more detailed issues related to steering), particularly where they ask for opinion as to what the future effects may be of not accepting certain payment methods.

As we explained in response to the methodology working paper, the PSR's proposed methodology for identifying merchants with card turnover of up to £28 million, will in practice include merchants of significantly varying sizes, depending on the nature of their business and their incentives for accepting cards, versus other payment methods. In turn, this will influence the type of respondee for this survey, whose roles and expertise may vary significantly.

Mastercard is concerned that the responses to the survey could be very unreliable, where the respondee lacks the relevant knowledge and expertise to answer some of the questions being asked.

***Respondees access to relevant information***

Again, the screener asks only to speak to "*someone who is responsible for making decisions about what providers your business uses for card-acquiring services*".  Even if the most relevant person has been identified, they may not have access to the necessary information to answer some of the more detailed factual questions, particularly where they may relate to factors outside of their direct responsibilities.  For example:-

- Details of the turnover and card turnover of the business
- Proportion of card payments through different channels and different acquirers
- Revenue generated by different payment methods
- Types of card-acquiring fees paid
- Use of steering, methods of steering, reasons for steering, effectiveness of steering, responses to steering
- Number and identity of card-acquirers previously considered
- Provider of supplementary goods or services

Where the respondee agrees immediately to undertake the survey in response to the first unprompted cold call, there is an obvious risk that they will not have ready access to the necessary information.  Even if the survey is taking place at a later pre-arranged time, the possibility still exists, if they have received no advance notice of the type of questions to be asked.  Therefore, there is a significant risk that the answers provided may be inaccurate and unreliable.

## B – Sales channels

As outlined above, it seems highly unlikely that a respondee would be able to give accurate information as to the percentage split of card payments received through different sales channels, without advance notice that this information will be requested, making any response inherently unreliable.

However, it may be worthwhile adding an additional question asking the length of time for which the business has been operating (alongside the time for which it has been accepting card payments).  This information will be very useful in relation to later questions concerning possible switching activity.

## C – Providers of card-acquiring services

As outlined above, it seems highly unlikely that a respondee would be able to give accurate information as to which of its card-acquirers accounts for the highest proportion of card payments (C4), without advance notice that this information will be requested, making any response inherently unreliable. Indeed, the answer to the question may vary over time, as is implied in the previous question relating to the reason for using more than one card-acquirer. The merchant may decide dynamically to switch between acquirers for different reasons at different types and so this question may risk over-simplification.

Similarly, the question as to the nature of the card-acquiring fees paid (C6) is risks significant over-simplification, particularly in relation to slightly larger merchants, which may be on interchange ++ charging models. Again, there is a risk that if the respondee does not have sufficient knowledge or expertise in this area they may be unable to provide an accurate response.

## D – Other payment channels

This section presents particular challenges because (by definition) it does not relate to card-acquiring services, but rather to all other payment methods, the reasons for choosing them and methods of steering towards them. In addition, it is the only section which asks about the choices/preferences of the merchants' customers, rather than only focussing only on the merchants' own actions.

As such, it appears incongruous within the survey and creates the obvious risk that the respondee who is best able to answer questions in all other sections, may well lack the necessary knowledge or expertise to answer questions in section D. The result may be that this section therefore produces the least reliable and robust responses. Mastercard believes that the PSR should carefully consider whether section D should therefore be included or whether it risks undermining and distorting the results of the rest of the survey. The ability of the PSR to understand the nature and effectiveness of competition between card-acquirers would not be reduced by the removal of section D. However, we will provide additional comments on these questions, as currently drafted.

As outlined above, it seems highly unlikely that a respondee would be able to give accurate information as to the proportion of revenue generated by card payments (D2), without advance notice that this information will be requested, making any response inherently unreliable

Although the answers to D4 will not be read out, we note that many of the advantages to merchants from accepting cards are not listed, namely (i) the speed/convenience of instore card payments (ii) the managed chargeback dispute process (iii) the payment guarantee, which ensures that merchants will always be paid regardless of whether the consumer actually pays (or the potential financial collapse of any other provider in the payment chain) (iv) the range of value-added services e.g. automatic billing updater, multi-currency settlement, back-up connectivity/stand-in

### *Steering*

If the PSR intends to retain section D, the questions relating to steering practices appear to be central to what the PSR is trying to understand. However, Mastercard is concerned that they may generate inaccurate or unintentionally biased responses as a consequence of both how the questions are worded and how the answers may be grouped,

notwithstanding the fact that they may be unprompted. In addition (although ecommerce steering is mentioned in one question) the tone of the questions generally appears to be focussed more towards face to face point of sale steering.

For example, D5 is the first steering question which introduces the concept and sets the tone of the subsequent questions. It refers only to steering towards cash and or other cards, rather than any alternative forms of payment. Not only is it likely to influence respondees into thinking only about these types of steering in response to this question, but it is also the only question which gives any specific examples of steering. As all of the questions are unprompted, without additional context, it is likely that respondees may have only this in mind as they answer the following questions.

In reality, steering may be more prevalent online and certainly the means of achieving it may be more varied and sophisticated, with the specific intention that it is less apparent to consumers whose payment choices might be unwittingly influenced. The PSR risks not gaining this insight with the more limited nature of its questions. For example, D8 only appears to envisage one basic means of online steering, namely the placing of logos on the website. This risks underplaying the significance of ecommerce steering.

Meanwhile, the possible responses to D9 are grouped in a way which suggests negative attitudes towards cards, rather a neutral view as to the respective merits of different payment options. Even if these answers are unprompted, the manner in which they will be presented may give the impression of an anti-card sentiment which does not actually exist. As an aside, we also note that the possible responses to D9 do not include the principal reason why merchants often steer towards Paypal, namely the increased convenience and lower cart abandonment rates compared with entering card details.

D10 and D11 are particularly challenging as it appears impossible to give accurate and useful responses to questions which require an assessment of so many varied and unknown factors. Even assuming that the respondee has the requisite understanding, it is simply not possible to know (in the absence of a direct conversation) whether any method of steering has been effective, how customers have reacted or what payment mechanism would have been used in the absence of steering mechanisms being in place e.g. instore signage or website logo positioning.

As it is likely that some customers will continue to use a payment method which the merchant may be trying to steer them away from, they may conclude that steering is ineffective, even if it was in fact effective for many other customers. Similarly, the degree of a customer's co-operation in response to steering is entirely subjective and somewhat meaningless, in view of the incredibly wide range of steering practices to which customers may have been subject. Perhaps the only form of steering to which customers may have a visibly negative response is the 'minimum card spend', which might therefore bias responses to this question.

More generally, we are also concerned that all of the steering questions compare 'Mastercard or Visa' with other payment methods. Whilst we understand why the PSR has framed the questions in this way in the context of the remit of this market review, in practice it is not how any merchant will view steering activity, not least because it may well not be reflective of acquirer pricing/acceptance costs which may make no distinction between card brands. Partly as a result of acquirer pricing, merchants are far more likely to view 'cards' collectively, rather than by brand or potentially to make a distinction according to the cost of acceptance.

Where that distinction is made, it is likely to be according to whether the card is credit, debit/prepaid or commercial in line with the definitions in the Interchange Fee Regulation and the rationale for the partial ban on surcharging.

Therefore, by asking the question in relation only to 'Mastercard or Visa', the PSR risks distorting the results or potentially asking a question which a merchant simply cannot accurately answer.

In addition, the fact that a Paypal transaction can be funded by a bank transfer, a debit or a credit card creates an added complication. As we mentioned, ecommerce merchants may have a strong incentive to steer towards Paypal, even though the acceptance costs are higher than they would be by directly accepting the card which may be funding the transaction. But this factor may further distort the answers which the PSR receives.

Finally, Mastercard believes that the PSR is overlooking the importance of understanding future steering intentions, which are probably more relevant to this market review than current steering activity. As the competitive payments landscape develops and the number and type of payment methods increases, it is likely that merchants will accept a greater number of payment methods. As a result, the benefits and importance of steering towards their preferred methods increases, whether or not customers are aware of it.

Throughout the market review, Mastercard has stressed the importance of the PSR taking a forward-looking approach to understanding the market as it will be in the short to medium term, not merely how it is now or has been in the recent past. There would therefore be significant value in the PSR asking merchants how their steering activity will respond to a wider range of payment methods being available and a likely lower market share for cards within that competitive mix.

### *Not accepting Mastercard and Visa*

The final four questions in section D appear to be of extremely limited value and should be removed. In particular, it is simply not possible for anyone to provide an accurate or useful answer to the hypothetical questions posed in D15, D16 and D17.

A merchant which has always accepted cards will have no evidence base or means of knowing how its customers will react to card payments no longer being available or what other payment methods would be used. Even if a merchant previously did not accept cards, the market is likely to have developed to the extent that this previous knowledge/experience is of limited relevance. Likewise, it is inconceivable that a merchant could accurately predict the number of customers which its business would lose if it stopped accepting cards, as this will depend on so many factors specific to each customer, of which the merchant can have no knowledge or insight.

The PSR will not be able to place any reliance on the subjective responses to future hypothetical questions, where there is no basis for the responses which will be given.

D14 also raises significantly more complex issues than may be apparent. The decision to accept Mastercard (and Visa) cards is driven by a wide variety of factors and the overall benefits to the merchant which are derived from doing so. But cards operate within an increasingly wide and competitive payments market and so the decision no longer to accept cards is unlikely to be driven by a single factor. Rather the merchant may determine that the benefits or value are less than some of the alternatives.

In reality, it is likely that merchants will accept more, rather than fewer, payment methods in the future, as has been demonstrated by recent evolution. Cheques are perhaps the only ever example of a payment method which merchants are generally deciding not to accept. As 'cards' continue to evolve, they are always likely to remain part of the payment-mix in one form or another. The relevant question therefore is not whether merchants will continue

to accept them, but what proportion of payments they account for in the future, which may be partly determined by the increasingly sophisticated steering issues discussed above.  The wording of D14 and the (albeit unprompted) possible responses, suggest a specific anti-card sentiment, rather than a recognition of the increasingly competitive market in which they operate.

## E – Relationship with provider(s)

Section E asks a number of questions which require a fairly detailed and sophisticated level of knowledge on the part of the respondee, as well as a memory for past events.  For many smaller merchants, the respondee's responsibility for managing card-acquiring may be a small part of their overall job and they may therefore struggle to provide reliable responses to these questions.

For example, many merchants are likely to have been with the same card-provider for a number of years and so the respondee may not know or be able accurately to recall: how contact was first established (E1); how many other providers they 'considered' (E2) (although that term is sufficiently non-specific to make an accurate answer very difficult to provide); what factors were considered when choosing (E3); or why other providers were not considered (E4).

Similarly, it may also be unreasonable to expect them to remember whether they have had contact with their card-acquirer in the past year (E5) and if so what was the precise reason for that contact (E6) and the resulting level of satisfaction (E7).

As regards E8, it seems very unlikely that smaller merchants will have any view on compliance with scheme rules and indeed, may not even be aware of their existence.  The merchant's relationship is with its acquirer and their obligations will be contained within that contract and so it is unlikely that they will separately consider the requirements of scheme rules, which are primarily intended to place obligations on the schemes' direct customers, rather than merchants.

As with other sections, the risks of including questions to which many respondees may not reasonably be able to provide a response, is not merely that the survey will generate a large proportion of 'don't know' responses, but rather that the results will be inaccurate and provide the PSR with an unreliable view of the market and basis upon which to draw any conclusions.

**F – Reviewing and switching**

**G – Switching: not considered switching**

**H – Switching: considered switching**

**I – Switching: switched in last 2 years**

**J - Switching: looking ahead**

Mastercard strongly supports the approach taken in these sections and the detail of the questions being asked, which reflects some of the comments which we made in response to the working paper methodology consultation.

Whilst it may be challenging for some respondees to provide full responses to all of the questions, it is clear that investigating the detail and effectiveness of the switching process is a pre-requisite to understanding the effectiveness of competition in card-acquiring.

We note that most of the questions ask for unprompted responses and whilst we agree with the principle of not unduly influencing or leading the respondees, the PSR should also be mindful of the risks of generating a high proportion of "don't know" or inaccurate responses, from respondees many of whom may not have the knowledge, expertise or memory to provide the comprehensive responses which the PSR may wish. For this reason, the PSR might consider whether for some questions, it could include an 'if necessary' additional explanatory section to give an indication of the type of factors which respondees should be thinking about when providing their answers (without necessarily providing a defined list from which they can choose).

# UK Finance

# PSR Market Review into the supply of card-acquiring services: Draft Questionnaire

**Date**: 12 July 2019

**Address**: UK Finance, 5th Floor, 1 Angel Court, London, EC2R 7HJ

**Sent to**: cards@psr.org.uk

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

## General comments

Given the very tight turnaround times UK Finance has been unable to curate a draft in time to circulate out amongst its members based on the tight timeframes between publication and the proposed submission date (one week).

The comments as are made, reflect observations that have been made at a superficial level and are more observations in the absence of any stipulated questions.

UK Finance respectfully reminds the PSR of its commitment as set out at paragraph(s) 1.7 & 1.9 in its *'Consultation on the approach to the merchant survey (MR18/1.4)'* that the future design and formulation of the merchant survey should be being seen, and as part, of an *'iterative and collaborative process'*.

- Greater transparency is still needed around how *IFF Research* was chosen with a proper understanding as to what level of expertise, as a market research agency, they possess in conducting similar surveys of financial service providers; and their understanding of the retail payments/acquiring sector in general.

- Similarly, we understand that *IFF Research* has already previously held in-depth interviews with around thirty merchants from differing industry sectors, who were asked to help inform the design of the questionnaire[1]. Why is this information not being disclosed along with the draft questionnaire itself? So as to provide some clearer indication of <u>who</u> those merchants are and <u>what</u> industry sectors are represented?

- Where the survey remains somewhat 'quiet' is if merchants <u>actually</u> understand the range of added services they receive and are provided for on their behalf (e.g. compliance, data security standards and/or regulatory obligations that are performed on their behalf); nor how well this is understood on a practical level and, if indeed it is considered as a competitive selling point?

- The survey[2] sets a general tone and assumption that the survey questions are fundamentally based around the traditional and conventional relationship between a retailer possessing a high-street presence and their acquirer. Which is very much the card present environment built around a retail proposition as a destination experience.

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[1] *Paragraph 3.8 – Marketing Review into the supply of card-acquiring services: Consultation on the approach to the merchant survey*

[2] *Based on the opening preamble at A1 at pg. 2 of the Draft Questionnaire.*

- More emphasis should be made, in the opening description of the survey, to actually convey the notion of acquiring as an important enabler in the 'offline' environment. References are given elsewhere[3] to '*e-commerce gateways'* but no explicit mention is actually provided for in the opening preamble which is essentially being used as a short descriptor as to what the attributes of '*card acquiring services'* are to do with.

- UK Finance is aware from its members that there are currently a range of specific trials and innovative product solutions that are being developed with their merchant customers and are currently in situ and are being actively tested.

- All of which derive from the services that individual acquirers are providing to their customer bases so as to help meet their merchants needs, and changes being witnessed as part of a wider societal demand; and as are being seen at an individual consumer behavioural level.

- Necessitating for a much more *'bespoke'*, *'experiential'* and *'seamless'* shopping experience. Also reflective in the *'offline world'* which too covers a myriad of merchant types, and business models, that are needing to be catered for. Yet none of this is captured, or even asked in any of the questions being posed as to what value is being generated to their businesses in return and as a whole (e.g. *repeat purchases, increased conversion rates, enhanced loyalty/brand presence, positive customer reviews etc*).

- Demonstrating some of the practical limitations, which our members have expressed, of the survey (and questionnaire) taking too independent an approach, and why there should be a more active collaboration with industry stakeholders to properly capture where those innovations are taking place and some of the value being generated in turn, so as to have those views tested. And more crucially, showing how these collaborative opportunities are being facilitated, and encouraged, between the payment and merchant communities themselves.

- The simple fact is that the proposed questionnaire does not recognise the benefits that innovative payment acceptance solutions are bringing to both merchants, and the card payments eco-system as a whole[4].

- The survey seems to lay a great deal of emphasis around an exhaustive list of '*acquirers', 'PSPs', 'processors'* and *'mPoS providers'*; that is repeatedly used, and cross-referenced to, at many points during the survey itself[5].

- It would be interesting to know how that list has been consolidated and put together. And more crucially as to whether the complexities and nuances of the market are understood by the merchants themselves in being able to distinguish between <u>who</u> those companies are, and <u>what</u> services they provide?

- For example, the list comprises both *PayPal* and *iZettle* (a wholly owned *PayPal* subsidiary). Is this by design or accident? If the latter, why not include *Braintree* and as a natural accompaniment alongside *Stripe* and *Adyen*?

- A natural follow-on question to ask is if vendors were to be included (e.g. *Verifone/ Ingenico*) would the cohort of merchants being surveyed (i.e. small and medium sized UK merchants) naturally gravitate and perceive them as the entity responsible for their *'payment needs'*, rather than the acquirer concerned?

- All are questions that are designed to help provide a measure as to how well those intricacies and nuances are understood; and whether these are *'factors'* that have any bearing, or, impact, on the commercial decisions as to why merchants make the decisions they do.

- We would stress the importance in certain instances that the general vernacular needs to be simplified and better explained given the intended audience. The concept of *'acquiring'* is something very much

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[3] *E3 on pg. 25 of the Draft Questionnaire*

[4] *An illustration of how diverse and dynamic the UK market is because of the maturity of the card payments market is seen by its reputation as a 'landing ground' for digital and mobile e-wallets that have been launched in the UK prior to being scaled elsewhere in Europe; and other targeted territories.*

[5] *A7 on pg. 6 of the Draft Questionnaire*

talked about in the card payments world but may not be something that is particularly well understood amongst retailers; especially where you have intermediaries/ ISO's purporting to offer 'acquiring' services.

- Indeed, trying to atomize those services still further (*e.g. PoS terminals, ecommerce gateways, EPOS systems, fraud prevention/data security, omni-channel, DCC services*) may straddle across a range of skill-sets, business areas and organisational structure of a retail business. Therefore, at a superficial level it seems very difficult to see how any chosen individual could properly convey; or, offer, an in-depth view that can holistically and authoritatively evaluate the overall value proposition, and/or services that their chosen acquirer provides.

- As well as also appreciating many of the 'hidden' extras that acquirers guarantee, often at their own commercial risk, in order to guard and ensure the integrity and operational resilience of the card payments network. Nor the impact that the merchant's credit or business risks has on an acquirers' willingness to provide services, or the conditions on which those services are provided for in turn.

- Section F *'Reviewing and Switching'* seems silent; nor, attempts to make any correlation to how the natural lifecycle and upgrade of an individual retailer's terminal estate may have a direct bearing, and might offer a natural juncture, as to when an internal review is actually undertaken by the merchant of its card acquiring services.

- Conversely greater precision is needed[6] to better distinguish and separate out what those online sales channels actually comprise in practice[7]. Which would align with how the questionnaire has attempted to separate out those full range of payment options as are listed at D1[8] and elsewhere.

- Finally, at D3[9] if cards are being listed as a standalone item to which there should be a degree of recognition, or at least an indication that this covers and includes those digital wallet providers/mobile contactless payment solutions that are now commonplace[10].

- Perhaps, further distinguishing this by including a separate category, that makes reference to 'other' standalone e-wallet solutions now operating in the UK market[11].

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[6] *B1 on pg.9 of the Draft Questionnaire*

[7] '*in-app'; mobile-web; PC based; Instant Messaging services; social media platforms*

[8] *D1 on pg. 14 of the Draft Questionnaire*

[9] *D3 on pg. 15 of the Draft Questionnaire*

[10] *Apple Pay, Google Pay, Samsung Pay*

[11] *YoYo Wallet/ Pay-by-Bank app which operate through separate payment rails (i.e ACH style solutions)*

# Visa Europe

# VISA Europe response to the PSR's consultation on the draft merchant survey questionnaire

*(in the context of the market review into card-acquiring services)*

July 2019

## 1 Visa's overarching concerns with the draft questionnaire

Visa Europe ("Visa") welcomes the opportunity to respond to the PSR's consultation on the draft merchant survey questionnaire and to help inform the PSR's work on the market review into the supply of card-acquiring services (the "market review"). However, we remain disappointed that the PSR has only given the sector one week to respond to this document. The merchant survey questionnaire is a critical and complex part of the PSR's information gathering exercise. It is therefore not appropriate to give stakeholders so little time to comment, particularly when the PSR has given three full weeks to respond to other documents, such as the recently published working paper on the PSR's approach to profitability analysis.

As we explained in our previous response on the PSR's survey methodology, Visa's business model rests on merchants being served effectively and we are committed to ensuring that the payments market functions to deliver the capabilities and services they need. Fundamentally, expanding acceptance of digital payments for all merchants, big and small, is critical for delivering our strategic vision.

We continuously strive to improve services for our clients and we always seek new ways to work with merchants to facilitate the development of payment solutions and services that are tailored to the needs of merchants and consumers. As a result, a thorough understanding of the preferences, behaviours and barriers to accessing payments is fundamental to the success of our businesses. This is why we, and the industry, invest extensively in trying to understand merchant and consumer views.

We also identified the risks and disadvantages associated with a regulatory body undertaking a survey of this nature (such as the risks of negative bias, missing subtleties of the industry, and missing harder-to-reach customers), as well as the opportunities the PSR has available to trial and test a range of different research methods across the payments ecosystem with different industry stakeholders. For example, in our own engagement work, we have discovered valuable insights from asking merchants about the challenges their businesses are facing and what help they could benefit from. Without exploring this dimension in the merchant survey, the PSR risks missing a valuable opportunity to collect similar information from over a thousand merchants across the country.

We are disappointed to see that the PSR has not used this opportunity to collaborate more deeply with industry stakeholders. If the PSR continues to pursue a merchant survey, it is important that it is conducted in as neutral and balanced a manner as possible. Critically, and based on the information we have seen from the PSR to date, we do not think that the PSR's current methodology and draft questionnaire will achieve this aim. In particular, we note the following:

1

- **There are identified flaws in the design of the draft questionnaire.** These include structural flaws as well as a large number of more granular concerns with the questions themselves. We suspect many of these issues will be revealed during testing of the pilot survey, which the PSR has committed to completing in its published working paper on the survey methodology. However, there are other issues, such as the risks associated with the use of the Mastercard and Visa names, that need to be addressed directly.

- **The PSR's sampling methodology remains incomplete and risks introducing bias to the survey results.** We are concerned that the PSR has not yet published the full details of its sampling methodology. There remains a risk that certain merchants' views will not be appropriately represented in the final sample of 1,200 respondents. Furthermore, without clarity on the PSR's final sampling methodology it is not possible to understand whether the PSR has appropriately taken account of biases in its approach or to have confidence in the results of the survey.

- **The survey will not capture views around new and innovative methods of payments and technological advances.** Our review of the survey questionnaire has confirmed that the PSR should be doing more to ensure that merchants can express a balanced view on the relative benefits of all the different payment methods they use (including not only cards, but also cash, and new and innovative payment solutions). For example, the survey would generate a set of richer responses if it enquired about a wider set of payment acceptance methods than cards only in Section D. We therefore encourage the PSR to reframe the questions in Section D to be payment method agnostic.

We note that the PSR has previously said it will complete cognitive testing of the questionnaire and run a pilot of the full survey. Given the breadth of the concerns we have identified about the survey and the remaining gaps in the research method, before the PSR continues with its work, we recommend that the PSR undertakes a comprehensive pilot study. We would expect such a study to include both testing of the survey questions and a review of the survey results against the merchant categories contacted. The latter will help the PSR confirm the existence of possible drivers of either a merchant's view of card-acquiring services, or merchant response rates, and to adjust its final research method accordingly and in a transparent way. We would also expect a pilot study to include an independent review of the questionnaire and research method by a separate research provider.

Following this, we encourage further engagement by the PSR with industry. At a minimum, we urge the PSR to publish:

- The results of the pilot study and the independent review, and how the PSR is proposing to incorporate these into the final questionnaire design and sampling methodology;

- The final details of the sampling methodology, and

- The final survey questionnaire.

Market participants should be offered the opportunity to respond to all of the above items.

We look forward to being able to engage with the PSR further on the development of the merchant survey, notwithstanding our view that a broader industry-led approach remains the most valuable option available to the PSR.

In the remainder of this response, we set out our concerns on the draft questionnaire in Section 2, and then in the Annex provide some specific views on individual questions that could partially mitigate some of the risks identified.

3

## 2       Comments on the PSR's methodology and draft questionnaire

In our response to the PSR's working paper on the approach to the merchant survey, we urged the PSR to consider a more ambitious and comprehensive exercise to understanding what matters to merchants. We are disappointed to see that the PSR is proposing to pursue a survey that not only misses this opportunity, but also misses the opportunity to trial and test a range of different research methods across the payments ecosystem.

If the PSR continues to pursue a merchant survey, it is important that it is conducted in as neutral and balanced a manner as possible. Critically, and based on the information we have seen from the PSR to date, we do not think that PSR's current methodology and draft questionnaire will achieve this aim.

In this section, we detail several flaws we have identified in the design of the draft questionnaire and methodological concerns that remain with the PSR's sampling approach. We strongly encourage the PSR to address these points before the survey progresses any further.

We also provide more detail of our concerns on specific questions in the Annex to this paper.

### 2.1     There are identified flaws in the design of the draft questionnaire

We have identified a number of flaws in the design of the draft questionnaire. These include structural flaws as well as a large number of more granular concerns with the questions themselves. We suspect many of these issues will be revealed during testing of the pilot survey but there are other issues, such as the risks associated with the use of Mastercard and Visa names, that need to be addressed directly.

We urge the PSR to complete and publish the results of a pilot study, including how the PSR is proposing to incorporate the results into the questionnaire. Market participants should also be offered the opportunity to respond to the results of the pilot.

We make the following observations:

- **Reference to Mastercard and Visa in a questionnaire sent to the market is wholly inappropriate and should be removed.** In a survey, administered by the UK regulator, any questions on merchants' choice between payment methods by reference to specific brands, risks damaging the reputations and commercial interests of the companies named. It is also misleading for the company names Mastercard and Visa to be used in the context of a survey on card-acquiring. For example, the mention of Mastercard and Visa is likely to confuse respondents on the focus of the questionnaire and risks biasing the remainder of the questionnaire. We also note that removing "Mastercard and Visa" from the existing questions in Section D would have little change in their intelligibility.

4

- **The location of Section D is inappropriate for a survey predominantly focused on card-acquiring services.** Section D - "Other payment channels" – currently contains a set of questions comparing card payments to other forms of payment. It comes after section C which is focused on "Providers of card-acquiring services" that includes questions such as "*C1 - Have you ever switched from one provider of card-acquiring services to another?*", and "*C3 - Why do you use more than one provider of card-acquiring services?*". The shift in the focus of the survey is not explained to the respondent and risks confusing two already complicated issues, namely card-acquiring and card acceptance. It is therefore highly likely that many respondents will not appreciate this shift in focus and either give confused answers in Section D or misunderstand the focus of the survey completely. We propose that the PSR moves section D to the end of the survey, after questions on card-acquiring have been exhausted.

- **The language and terminology used in some questions run the risk of either leading the respondent to answer in a certain way or misleading them.** Notwithstanding our concerns with the inclusion of the names Mastercard and Visa in the questionnaire and our comments above below on shifting section D to be payment-type agnostic, we are concerned with some questions in which the tone is skewed negatively against cards. Examples include*: D5 – "Over the last year did your business take any steps to attempt to influence customers into not paying with Mastercard or Visa cards?*" and *D14 – "What, if anything, would cause you to consider no longer accepting Mastercard and Visa cards?*". For both questions (which are asked to all respondents), there is a risk of introducing a cognitive bias against card payments with the respondent that will skew all subsequent answers. We provide suggested alternative wording to both these questions in the Annex to this response.

- **There are a large number of practically challenging questions in the draft questionnaire.** We have identified a large number of practically challenging questions in which some aspects of the question complicate the successful completion of the questionnaire. For example, in cases where information is requested on merchant turnover or the proportion of card payments by payment channel, it will be challenging for respondents to recall this information over the phone[1]. In addition, some respondents may be reluctant to provide some of this information without seeking further approval from their superiors. We provide full details on our concerns on the survey questions in the Annex to this paper, together with suggested actions.

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[1] We note that in our response to the PSR's survey methodology working paper we suggest that the PSR give respondents the option of completing the survey online. This would go some way towards alleviating concerns with questions posing practical challenges to respondents.

## 2.2 The PSR's sampling methodology remains incomplete and risks introducing bias to the survey results

We remain concerned that the PSR has not yet published the full details of its sampling methodology and therefore there are risks that certain merchant views will not be appropriately represented in the final sample of 1,200 respondents[2]. Furthermore, without clarity on the PSR's final sampling methodology it will be not be possible to understand whether the PSR has appropriately taken account of biases in establishing its sampling methodology and to have confidence in the results of the survey.

We list below two factors that could result in systematic differences in responses and bias the results of the survey unless controlled for. We would welcome the PSR using a comprehensive pilot study to investigate the factors listed below and identify any additional characteristics that might be significant drivers of either a merchant's view of card-acquiring services, or the merchant response rate.

- **Non-response and drop-off rates varying between merchant classes.** The probability of a merchant beginning and completing the survey is unlikely to be randomly distributed across merchants of all types and all relevant characteristics. For example, we would expect a small merchant to have less time or capacity to either begin or complete a telephone survey than a medium sized merchant. There is therefore a high risk that without further research of response and drop-off rates and an appropriate mitigation strategy, the PSR will obtain a sample that is skewed towards medium-sized merchants.

- **Immediate versus postponed interviews.** The PSR should be mindful of the possibility of differences in the outcomes of an immediate interview versus a postponed interview. A respondent who has made time to engage with the survey will be more likely to give thought to their answers which may result in systematically different views to respondents giving their immediate thoughts. The PSR should investigate whether this is the case and possibly introduce a sample quota for immediate versus postponed interviews.

We also note that there is no evidence that the concerns we raised previously in response to the PSR's working paper have been taken into account. We identified that the survey results could be biased arising from respondent self-selection, knowledge of the survey origin and the proposed single channel of a telephone interview. Given these and the additional concerns raised in this section, we continue to recommend that the PSR includes both a monetary incentive for participation[3] and the option of completing the survey online.

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[2] Footnote 14 of the PSR's survey methodology working paper reads: *"We currently do not have reliable information on the proportion of customers that these acquirers serve, so we have based our coverage figures on transaction volumes. As we collect more information during the market review we intend to evaluate the coverage of the survey in terms of merchant numbers"*. Until the PSR has collected this information it will be unable to finalise the design of its sampling methodology.

[3] The two examples we provided were: 1) In the survey conducted by the CMA in the context of the Energy Market Investigation respondents were given £20 for participation, source: *Energy Market Investigation, Technical Report on a survey conducted for the Competition and Markets Authority by Gfk NOP.* 2) In the survey conducted by Ofwat in the Review of the Residential Water Market respondents were given £20 for participation, source: *Prepared for Ofwat by Accent – Customer Response to Competition in the residential Water Market - Final Report 2016.*

6

## 2.3 The survey will not capture views around new and innovative methods of payments and technological advances

In our response to the PSR's merchant survey methodology, we detailed a number of market characteristics that the survey should be mindful of. Our review of the survey questions has confirmed that the PSR should be doing more to ensure that merchants can express a balanced view on the relative benefits of all the different payment methods they use (including not only cards, but also cash, and new and innovative payment solutions). We make the following more detailed points:

- **Merchant needs are shifting and evolving rapidly.** The proposed survey does not recognise the benefits that innovative payment acceptance solutions are bringing to merchants and the payments ecosystem, nor does it reflect that consumers' choices often drive the demand for multiple payment methods. The draft survey does not include satisfaction questions about the current service received, nor an opportunity for respondents to evaluate their current service based on a number of different metrics.

- **Many merchants will have multiple service providers and are likely to have different experiences of them.** The draft questionnaire recognises that the many merchants may have multiple acquirers[4]. However, the design of the questions in section E through K focus only on the provider identified in question C4 that accounts for the highest proportion of card payments in the respondent's business[5]. This approach risks missing significant differences in views between the acquirers that merchants use for different purposes, the most obvious example being providers of online vs. card-present services. We recommend that for merchants with more than one acquirer offering substantially different services, a subset of key questions is selected and asked again in relation to these additional acquirers. This approach will capture the variety of views that is likely to exist across them.

- **The PSR should not lose sight of the broader competitive landscape in payment solutions, and be mindful of presenting other payment methods as alternatives to cards.** Some questions, particularly those in section D – "Other payment channels" - have been worded and presented to imply a false choice between accepting card payments alone or accepting an alternative form of payment. In reality, merchants are open to accepting multiple forms of payments and consumer demands for varying payment methods drive that merchants offer. Paypal, for example, which the PSR positions as an alternative method of payment to Visa and Mastercard (see D1, D3, D7 and D16), can actually also enable card acceptance and provides additional services. As a result, the survey would generate a set of richer responses if it enquired about a wider set of payment acceptance methods than cards only in Section D. We therefore encourage the PSR to reframe the questions around asking merchants about payment methods in general. We provide suggested alternative wording to the questions in section D in the Annex.

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[4] For example: A6 - *And is [PROVIDER FROM SAMPLE] the only provider of card-acquiring services you use? Or do you use more than one provider?* And A7 - *In that case, could you tell me who all your providers of card-acquiring services are?*

[5] We note in the Annex that is unclear in question C4 what 'the highest proportion of card payments' means, e.g. whether it is based on transaction number or value.

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We would welcome an opportunity to work with the PSR on the design and structure of the final survey to address the points raised above.

8

# Annex – Detailed comments on the PSR's draft questions

This Annex provides detailed comments and suggested actions for a number of the questions proposed by the PSR in the draft questionnaire.

Broadly, we have organised our comments into the following categories:

- **BIAS**, where there is a risk of the question framing and/or wording, biasing the answer in some way;
- **PRACTICAL CHALLENGE**, where some aspect(s) of the question complicates the successful completion of the survey;
- **CLARITY**, where we recommend the PSR provides additional clarification to the question.

For each question, we have proposed one or more of the following suggested actions:

- **REMOVE**, where we recommend the question should be removed from the survey,
- **CHANGE**, where we recommend a change to the question,
- **KEEP**, where we recommend keeping the question without any changes.
- **ADD**, where we suggest adding other questions related to the question considered.

| Question number and text | Comments | Suggested action |
|---|---|---|
| **A Screener** | | |
| A1. *Good morning / afternoon. My name is [NAME] and I'm calling from IFF Research on behalf of the Payment Systems Regulator (PSR). Please can I speak to someone who is responsible for making decisions about what providers your business uses for card-acquiring services?* | **BIAS.** This question mentions that the survey is being conducted on behalf of the PSR. This immediately risks biasing the approach a merchant will take in responding to this survey. | **CHANGE.** Move the request of consent to the end of the survey. This removes the need to reference the PSR's name upfront. |
| A2. *We've been commissioned by the PSR to gather evidence on whether the supply of card acquiring services is working well for businesses, like yours, and your customers...Would now be a convenient time to take part in an interview?* | **BIAS.** The PSR should be mindful of the possibility of differences in the outcomes of an immediate interview versus a postponed interview. The PSR ought to gather evidence about how that difference may affect the results of the survey.<br><br>**BIAS** as per A1 | **CHANGE** the format of the survey should include the option of respondents completing an online survey if that is their preference. This may help in reducing non-response and drop-off rates.<br><br>**CHANGE** as per A1. |

9

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|---|---|---|
| A3. *Your contact details will be used in accordance with the PSR's data privacy notice which can be found on its website. The privacy notice explains how the PSR collects personal data for its work, how they use and store that data and your rights under data protection legislation. The PSR's data privacy notice can be found at www.psr.org.uk/privacynotice.* | **BIAS.** As noted for A1 and A2, providing the PSR's name upfront may introduce biases in the response. | **CHANGE.** Move the request of consent to the end of the survey. This removes the need to reference the PSR's name upfront. |
| A4 - *Are you responsible for making decisions about card-acquiring services for your business? You may be the sole decision maker or make decisions jointly with other people.* | **PRACTICAL CHALLENGE.** There may be instances where decisions on card-acquiring services are taken by more than one person (especially for companies towards the upper end of the sample range). As it currently stands, it will be challenging for the survey to capture views from different people in the same company. Also, not all of the questions in the survey relate to card-acquiring services. The person responsible for decisions on card-acquiring services may therefore not be best placed to answer other questions in the survey. Finally, we consider that there is too little background information in the script to help merchants understand how their provider of card-acquiring services might differ from a POS provider, for example. This may also make it challenging for a merchant to identify the right respondent for the survey. | **CHANGE** the format of the survey to include an online option to give more people in the company the opportunity to comment. **ADD** background information to help merchants understand the differences between different forms of payment service providers. In particular, the term card-acquiring services, which is introduced in this question, should be clearly defined for merchants before moving onto specific questions. |
| A5 - Our records show that you currently use [PROVIDER FROM SAMPLE] for card-acquiring services. Is this correct? | No specific comment. | **KEEP** |
| A6 - *And is [PROVIDER FROM SAMPLE] the only provider of card-acquiring services you use? Or do you use more than one provider?* | **PRACTICAL CHALLENGE.** Merchants who use more than one card-acquiring provider (e.g. physical vs online service provider) are likely to have different views about them. We understand (from question C4) that for those merchants with multiple acquirers, the focus of the survey will be on the primary provider only. If this is correct, the survey risks missing important information. | **CHANGE** to ensure a subset of key questions are asked to merchants with multiple providers, e.g. physical vs online service providers, to capture the variety of views that is likely to exist across them. |

10

| A7 - *In that case, could you tell me who all your providers of card-acquiring services are? [IF A6=2: Please include [PROVIDER FROM SAMPLE]].* | **PRACTICAL CHALLENGE.** It may be challenging for respondents to recall this information over a telephone interview. | **CHANGE** the format of the survey to include an online option. |
|---|---|---|
| A8 - *It sounds as though you might not be the best person to take part in this research. Could you please provide the details of someone who is responsible for making decisions about card-acquiring services for your business?* | **PRACTICAL CHALLENGE**. Collecting and keeping contact details may deter respondents from engaging in the survey. | **CHANGE** the format of the survey to include an online option where contact is less direct. |
| A9 - *What was the approximate turnover of your business in the calendar year 2018?* | **PRACTICAL CHALLENGE.** It may be challenging for respondents to recall this information over a telephone interview. In addition, respondents may be reluctant to declare some of this information without seeking further approval from their superiors. | **CHANGE** the format of the survey to include an online option.<br><br>**CHANGE.** In addition, the question should refer to financial year rather than calendar year. |
| A10 - *Which of the following bands does your business' turnover from 2018 fall into...?* | **PRACTICAL CHALLENGE.** It may be challenging for respondents to recall this information over a telephone interview. In addition, respondents may be nervous to declare some of this information without seeking further approval from their superiors.<br><br>**CLARITY.** Given that the question is still incomplete, we cannot comment further on its appropriateness. | **CHANGE** as per A9 |
| A11 - And, *roughly, what was your business's turnover from just card transactions in the calendar year 2018?* | **PRACTICAL CHALLENGE** as per A9 | **CHANGE** as per A9 |
| A12 - *Which of the following bands does your business's turnover from card transactions in 2018 fall into...?]* | **PRACTICAL CHALLENGE** as per A10 | **CHANGE** as per A9 |
| **B Sales channels** | | |
| B1 - *So, do you accept card payments....?* | No specific comment. | **KEEP** |
| B2 - *What proportion of card payments do you take...* | **PRACTICAL CHALLENGE** as per A9 | **CHANGE** the format of the survey to include an online option. |
| B3 - *How long has your business been accepting card payments?* | No specific comment. | **KEEP** |

11

| C Providers of card-acquiring services | | |
|---|---|---|
| C1 - *Have you ever switched from one provider of card-acquiring services to another?* | No specific comment. | KEEP |
| C2 - *Have you switched from one provider of card-acquiring services to another in the last 2 years?* | No specific comment. | KEEP |
| C3 - *Why do you use more than one provider of card-acquiring services?* | No specific comment. | KEEP |
| C4 - *Which of these providers accounts for the highest proportion of card payments for your business?* | **CLARITY.** It is unclear from the question what 'the highest proportion of card payments' means, e.g. whether it is based on transaction number or value.<br><br>**PRACTICAL CHALLENGE.** It may be challenging for respondents to recall the information requested over a telephone interview.<br><br>**BIAS.** The fact that the question only asks for the primary provider of acquiring services, without differentiating between physical and online transactions risks missing out key information. This follows from our understanding that for those merchants with multiple acquirers, the focus of the survey will be on the primary provider only. | **CHANGE** the format of the survey to include an online option.<br><br>**CHANGE.** The PSR needs to clarify the metric: 'proportion of transactions'.<br><br>**CHANGE** to ensure a subset of key questions are asked to merchants with multiple providers to capture the variety of views that is likely to exist across them. |
| C5 - *[IF A7 IS MULTI: From now on I'd like to focus on [TEXT SUB FROM C4]].*<br><br>*Which of the following card brands does [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7] allow you to accept payment from?* | No specific comment. | KEEP |
| C6 - *What type of fee do you pay [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE CODE: TEXT SUB FROM C4] for card-acquiring services? You can select more than one if necessary.* | No specific comment. | KEEP |
| D Other payment channels | | |
| Section D | **PRACTICAL CHALLENGE.** The survey moves abruptly into questions about Mastercard and Visa, despite being initially focused on card-acquiring services. | **CHANGE.** The survey will result in richer responses if it enquires about a wider set of payment acceptance methods than cards only. All questions should therefore be framed around asking merchants about payment |

12

| | **BIAS.** In a survey, administered by the UK regulator, any questions on merchants' choice between payment methods by reference to specific brands, risks damaging the reputations and commercial interests of the companies named. It is also misleading for the company names Mastercard and Visa to be used in the context of a survey on card-acquiring. Furthermore, the mention of Mastercard and Visa is likely to confuse respondents on the focus of the questionnaire and risks biasing the remainder of the questionnaire. We also note that removing "Mastercard and Visa" from the existing questions in Section D would have little change in their intelligibility. | methods in general – *see below for specific changes to questions.*<br><br>**CHANGE.** Remove all references to Mastercard and Visa and use "cards" instead.<br><br>**CHANGE.** This entire section should be moved to the end of the survey to ensure a consistent flow of topics and avoid mixing questions on cards with questions on acquirers.<br><br>**ADD** background information, helping merchant to understand the differences between card-acquiring services and card schemes. |
|---|---|---|
| D1 - *So, other than card payments, what other payment methods do you accept?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method. | **CHANGE** question to ask "*What payment methods do you accept?*"<br><br>**CHANGE** options to remove 'Paypal' and cover in the 'Other' category. |
| D2 - *Compared to card payments, would you say the other payment method(s) you accept accounted for more revenue, less revenue or around the same amount of revenue in the last year?* | **PRACTICAL CHALLENGE.** It may be challenging for respondents to recall this information over a telephone interview. It is also unclear whether respondents should take into account one or more of the payment methods mentioned in D1. | **CHANGE** question to "*Of the payment methods listed in D1 which one accounts for the largest proportion of your revenue?*"<br><br>**CHANGE.** In addition, the question should refer to financial year rather than calendar year. |
| D3 - *Considering cards and the other payments methods you accept, what is your preferred payment method?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method. | **CHANGE** question "*Among the payment methods you accept (as per D1), what is your preferred payment method?*"<br><br>**CHANGE** options to remove 'Paypal' and cover in the 'Other' category. |
| D4 - *And why is [TEXT SUB FROM D3] your preferred payment method?* | Subject to changes to D3, no specific comments. | **KEEP** |
| D5 - *Over the last year did your business take any steps to attempt to influence customers into not paying with Mastercard or Visa cards?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method. | **CHANGE** question to "*Over the last year did your business take any steps to attempt to influence customers* |

13

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|---|---|---|
| | | *into paying or not paying with a particular payment method listed in D1?".* |
| D6 - *Did you do this…* | Subject to changes to D5, no specific comment. | KEEP |
| D7 - *What payment methods did you try to influence customers to use instead of Mastercard or Visa cards?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>This question is also subject to the changes proposed to D5. | **CHANGE** question to "*What payment method did you try to influence customers to use?*"<br><br>**CHANGE** options to remove 'Paypal' and cover in the 'Other' category. |
| D8 - *What steps did you take when attempting to influence customers to use a payment method other than Mastercard or Visa cards?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>This question is also subject to the changes proposed to D5 and D7. | **CHANGE** question to "*What steps did you take when attempting to influence customers to use that payment method (as per D7)?*" |
| D9 - *And why did you try to influence customers to use payment methods other than Visa and Mastercard cards?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>This question is also subject to the changes proposed to D5 and D7. | **CHANGE** question to "*And why did you try to influence customers to use that payment method (as per D7)?*" |
| D10 - *Generally, did the steps your business took to influence customers to use payment methods other than Mastercard or Visa cards, result in a change to the payment methods they used?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>This question is also subject to the changes proposed to D5 and D7. | **CHANGE** question to "*Generally, did the steps your business took to influence customers to use that payment method (as per D7) result in a change to the payment method they used?*" |
| D11 - *How have customers typically reacted to the steps your business took to influence them to use payment methods other than Mastercard or Visa cards? Would you say…* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>This question is also subject to the changes proposed to D5 and D7. | **CHANGE** question to "*How have customers typically reacted to the steps your business took to influence them to use that payment method (as per D7)?*" |
| D12 - *Are you still trying to influence customers to use payment methods other than Mastercard or Visa cards?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>This question is also subject to the changes proposed to D5 and D7. | **CHANGE** question to "*Are you still trying to influence customers to use that payment method (as per D7)?*" |
| D13 - *Why have you not taken steps to influence the payment methods used by customers?* | Subject to changes to D5, no specific comment. | KEEP |

14

| D14 - *What, if anything, would cause you to consider no longer accepting Mastercard and Visa cards?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method. The question also implies an assumption that the respondent may be considering no longer accepting Mastercard and Visa cards.<br><br>**PRACTICAL CHALLENGE.** It is unclear how responses to this question may be informative for the PSR. The options 'A rise in fee' or 'Reoccurring connectivity issues', for example, without quantification do not give much insight into consumer preferences.<br><br>This question is also subject to the changes proposed to D5 and D7. | **ADD** a question "*Would you consider no longer accepting that payment method (as per D7)*".<br><br>**CHANGE** the question to "*What, if anything, would cause you to consider no longer accepting that payment method (as per D7)?*"<br><br>**ADD** follow up questions on the frequency/quantification of scenarios provided, e.g. percentage of fee rises, frequency of connectivity issues. |
| --- | --- | --- |
| D15 - *If you decided to stop accepting Mastercard and Visa cards, how would your customers react?* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>**PRACTICAL CHALLENGE.** The PSR is likely to get more meaningful answers from asking this question to cardholders. | **CHANGE** the question to "*If you decided to stop accepting that payment method (as per D7), how would your customers react?*" |
| D16 - *What payment method would your customers choose instead?* | **PRACTICAL CHALLENGE.** The PSR is likely to get more meaningful answers from asking this question to cardholders. | **CHANGE** options to remove 'Paypal' and cover in the 'Other' category. |
| D17 - *How many customers do you think your business would lose if you decided to stop accepting Mastercard and Visa cards? Would you say...* | **BIAS.** Section D would result in a set of richer responses if the questions were agnostic to the payment method.<br><br>**PRACTICAL CHALLENGE.** This question is asking respondents to base their answers on multiple assumptions, which is likely to result in answers with low accuracy. In addition, the PSR is likely to get more meaningful answers from asking this question to cardholders.<br><br>This question is also subject to the changes proposed to D15. | **CHANGE** the question to "*How many customers do you think your business would lose if you decided to stop accepting that payment method (as per D7)?*" |

15

| E Relationship with provider(s) | | |
|---|---|---|
| Section E | **BIAS.** Section E does not provide questions on the services that merchants enjoy from acquirers. | **ADD** question on *"What are the benefits that your business enjoys in terms of convenience from the card acquiring service?" (tick all that apply)*<br><br>*Direct integration with accounting systems; Other back office integration; Card acceptance is lower cost than cash; Convenience of making refunds to customers; Consumers can control their card, set limits; Tap to pay saves my customers and employees time; Innovation that acquirers bring; Allows large volume of transactions to take place; Allows consumers to have choice in payment card or method; Don't know."* |
| E1 - *How was your relationship with [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7] first established?* | No specific comment | **ADD** an option on whether the provider of card-acquiring services was referred by an accountant. |
| E2 - *When you first established a relationship with [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7], how many other providers of card-acquiring services did your business consider?* | **PRACTICAL CHALLENGE.** If a merchant has not switched their acquirer within the past two years, their existing relationship may have been in place for some time. This may make it difficult for the respondent to accurately recall this information. | **CHANGE** to enquire about the process a merchant would undertake today if they were to change provider.<br><br>**ADD** a question on how the merchant would go about reviewing providers, e.g. press, online, comparison websites, previous contacts etc. |
| E3 - *What factors did you consider when choosing [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7]?* | Subject to changes to E2, no specific comment. | **CHANGE** as per E2 |
| E4 - *Why did you not consider any other providers?* | Subject to changes to E2, no specific comment. | **CHANGE** as per E2 |
| E5 - Within the last year, have you had to contact [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUM FROM A7] for any reason? For example, by phone or email. | No specific comments | **KEEP** |
| E6 - *What was the reason for your most recent contact?* | No specific comments | **KEEP** |

16

| E7 - *To what extent were you satisfied with the customer service you received when you made contact? Would you say...* | No specific comments | **KEEP** |
|---|---|---|
| E7 - *To what extent were you satisfied with the customer service you received when you made contact? Would you say...* | **BIAS.** This question is wholly subjective and the basis for the answer will differ across respondents. | **ADD** metrics to make the question more objective. |
| E8 - *To what extent do you agree or disagree with the following statements about ...*<br><br>*_1 They provide enough information to help you understand the price you pay for card-acquiring services*<br><br>*_2 They meet the needs of your business for card-acquiring services*<br><br>*_3 They provide enough support to help you comply with card scheme rules (e.g. Visa or Mastercard rules)* | **BIAS.** The fact that these three questions do not provide an opportunity to follow up the answer will result in an incomplete picture for the acquirer.<br><br>**PRACTICAL CHALLENGE.** Q3 is challenging for merchants to answer accurately. Merchants are not contractually bound to card schemes. Rather, card scheme rules are embedded in acquirers' contractual terms with their merchants. A merchant is highly unlikely to have visibility of which contractual conditions exist because of card scheme rules and those that are specific to the acquirer. | **ADD** follow up questions, e.g. *"Why?"*, to Q1 and Q2 to clarify the reasons for a specific answer.<br><br>**REMOVE** Q3 |
| E9 - *Which, if any, of the following supplementary goods or services do you use to accept payments from your customers, in addition to card-acquiring services?  Please note that these could be bought, rented or leased from anyone, not just [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7].* | No specific comments | **KEEP** |
| E10 - *Do you source [IF E9 IS SINGLE: this good or service] [IF E9 IS MULTI: these goods or services] from [[IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7]?* | No specific comments | **KEEP** |
| E11 - *Why do you source supplementary goods or services from providers other than [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7]]?* | No specific comments | **KEEP** |

17

| E12 - *Why do you source supplementary goods or services from [IF A7 IS MULTI: TEXT SUB FROM C4] [IF A7 IS SINGLE: TEXT SUB FROM A7]?* | No specific comments | **ADD** an option indicating that merchants adopt that supplementary good only because their provider of acquiring services made them aware of it and the product offers incremental benefit and value to the business. |
|---|---|---|

We have no further substantive comments on sections F to K

18

# Worldpay

# worldpay

# PSR market review into the supply of card-acquiring services

Worldpay response to merchant survey questionnaire (MR18/1.5)

July 2019

# Contents

# 1   Introduction and Summary

1.1   The PSR intends to conduct a survey of small and medium-sized UK merchants who purchase card-acquiring services to understand factors that may affect demand from merchants for these services. On 5 July 2019 the PSR published for consultation the draft questionnaire that will be used to survey merchants. This survey is proposed in the context of the PSR's market review into the supply of card-acquiring services, and the PSR has indicated that results from this survey will form a part of the evidence base used in reaching its view on the effectiveness of competition in the card-acquiring industry.

1.2   Worldpay welcomes the opportunity to comment on the PSR's draft questionnaire. In section 2 of this response we have set out our high level comments on the overall questionnaire, in particular we note the following points:

- merchants may not be aware of the technical distinction between "card-acquiring services" and other elements of the card acceptance value chain which could impact on the reliability and comparability of the survey results;

- the ordering of the questions proposed in the draft questionnaire could result in confusion among respondents and/or a high dropout rate;

- some aspects of the draft questionnaire could result in the PSR receiving biased responses or a biased interpretation of the results;

- the merchants that will form part of the research sample will cover a large range of businesses, which may have different needs and experiences in relation to card-acquiring services and therefore likely to give rise to very different responses;

- the current draft includes a disproportionate number of questions relating to influencing customers to use other payment channels (other than Visa and Mastercard); and

- extensive cognitive testing and piloting is required in order to: (i) ensure merchants are able to understand and engage with the questionnaire; (ii) ensure the survey length is manageable; and (iii) assess the appropriateness of the response coding.

1.3   Section 3 of the response provides comments in relation to specific questions. As Worldpay has only been given a week to comment on the detail of the questionnaire, it may have additional comments on the survey questionnaire in due course.

# 2    High level comments

**Definition of card acquiring services**

2.1    As Worldpay submitted in its response to the merchant survey approach consultation, merchants may not be aware of the technical distinction between "card-acquiring services" (as defined in the Terms of Reference of the market review), and other elements of the card acceptance value chain. The current draft questionnaire only includes a short one paragraph explanation of card acquiring services which is only provided to merchants *"if necessary"*, although it is unclear how this necessity will be assessed.[1]

2.2    We consider that even when provided with this brief explanation, merchants may not be able to distinguish providers of card acquiring services from ISOs, payment facilitators, technology providers etc., and therefore may respond in a general way in relation to all merchant-facing providers. The PSR appears to recognise this risk, as it includes a number of non-card acquirers in the coded answers to Questions A7 and I7 (both questions relating specifically to card acquirers).

2.3    There is therefore a significant risk that merchants' views and experiences with other aspects of the value chain may influence responses concerning card-acquiring, which could potentially result in misleading survey results. Clearly, if respondents are interpreting card acquiring services in different ways, it will impact on both the reliability and comparability of the results.

2.4    In this regard, the CMA's guidelines on surveys notes that:[2]

*"There needs to be consistency in interpretation of the survey questions by respondents to ensure that the views they express are based on a common understanding of the questions being asked. Any scope for ambiguity or confusion in the phrasing of a customer survey question is likely to reduce its evidential weight."*

2.5    It is therefore important that the understanding of the definition of card acquiring services is rigorously tested and scrutinised in the cognitive testing and pilot survey that the PSR intends to undertake before any fieldwork is carried out.

**Question ordering**

2.6    The ordering of questions in a survey can have a significant impact on respondents' engagement. Worldpay considers that there is a risk that the order of questions proposed in the draft questionnaire could result in confusion among respondents and/or a high dropout rate.

2.7    The draft questionnaire starts with screening questions before immediately asking detailed questions on the merchant's turnover. Such detailed questions on a business' turnover at the start of the survey will potentially reduce engagement if merchants are unwilling to provide this information (i.e. they may disengage if they perceive the survey will be overly intrusive). Best practice would be to include simpler questions at the start of the survey, e.g. general questions on the merchant's business. In this regard the CMA's survey

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[1] Question A1, page 2.
[2] CMA, *"Good practice in the design and presentation of customer survey evidence in merger cases"*, May 2018, paragraph 3.9.

guidelines note that: *"It is good practice to ask easily answered questions on matter-of-fact topics at the start of a survey to 'warm up' respondents"*.[3]

2.8 It is also unusual that the survey does not include a section near the beginning to determine how merchants selected their current provider of card acquiring services, and what factors they considered were important to them. Such matter of fact questions are relatively easy to answer and provide a more gentle introduction to the survey. Although the survey asks merchants that have not switched in the last two years what factors they considered when choosing their provider (Question E3) it is only asked to a sub-section of merchants. A similar question is asked to merchants that have switched (Question H8 and I8), but it does not necessarily relate to the merchant's current provider of card acquiring services. Worldpay believes it would be helpful to include some questions on a merchant's choice of current provider at the start of the survey.

2.9 Worldpay also notes that Section D of the survey includes questions on other payment channels. However, this section is included in the middle of questions on card acquiring services (Sections C and E to J), which may confuse merchants. Worldpay suggests that this section is moved to the end of the questionnaire (also see Worldpay's other comments on this section below).

**Avoiding potential bias**

2.10 Worldpay considers that some aspects of the draft questionnaire could result in the PSR receiving biased responses or in a biased interpretation of the results. In particular:

- the follow-up prompt to Question A1 (repeated again in the follow-up prompt to A2) explains that *"The findings of this research will inform the PSR's work and help the PSR decide what action, if any they should take to improve outcomes for businesses, and ultimately consumers"*. Worldpay considers that this element of the introduction should be deleted as it potentially biases merchants, particularly those that are less aware of card acquiring services and hence will need the prompt, towards providing more extreme responses in the hope that this will improve the outcomes in their favour. Given the PSR's Terms of Reference, these are merchants who may be of particular interest to PSR, and therefore it is important that accurate and unbiased responses are obtained;

- most of the follow-up questions in the survey relate to raising concerns (i.e. negative responses), whereas when merchants provide a positive response they are generally not asked a follow-up question, with the consequence that the survey results will not identify aspects of the market that are working well. For example, when asked how easy or difficult it was to compare providers of card acquiring services (Question H4), a follow-up question (Question H5) is only asked to merchants that found it fairly difficult or very difficult. In order to adopt a more balanced approach, it is also important to understand why some merchants found it easy;

- there are a limited number of positively coded responses to unprompted questions. For example, all of the coded answers to Question E4 are negative responses, whereas there are numerous positive reasons why a merchant would not consider another provider (e.g. they are happy with the current competitive offering, they switched to another tariff with their current provider, they re-negotiated their terms with their existing provider etc). There is no clear reason why the survey design should only code

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[3] Op. cit. paragraph 3.3.

negative or neutral answers, and there is a clear risk that currently positive answers would be placed into an 'Other' group with inconsistent groupings (see further details in the next bullet);

- whilst a number of the questions rely on unprompted responses, there is a risk that the responses do not fit neatly into the different options/categories identified and therefore rely on the judgment of the researcher. This introduces the potential for responses to be inaccurately coded, and for a myriad of different responses to be received. Researchers are unlikely to be familiar with card acquiring services and it is therefore very important that the questions are carefully tested, and researchers are well briefed; and

- for a number of the questions with prompted responses, the researcher is instructed not to read out a 'don't know' option (e.g. Question E6). The risk is that this approach forces respondents into accepting one of the responses given, which can lead to inaccurate and biased responses.

**Single survey for all merchants**

2.11 The PSR's survey is targeted at small and medium-sized merchants in the UK. Nonetheless, the merchants who will form part of the research sample cover a large range of businesses which may have different experiences in relation to card-acquiring services. In particular the survey covers:

- E-commerce merchants as well as traditional POS merchants;

- business-to-business as well as business-to-consumer merchants;

- large corporate merchants as well as small SMEs; and

- merchants with a large volume of international transactions as well as merchants with predominantly UK transactions.

We expect different types of merchants to respond differently to some of the questions (e.g. as mentioned in response to the PSR merchant survey approach consultation, the requirements of SMEs are often very different to large corporates, some of which are included within the PSR's sample). It is therefore extremely important that the PSR includes introductory questions to ensure different types of merchants can be correctly identified, and that the range of options is sufficiently broad to capture responses from all types of merchants. Moreover, the PSR should consider whether some of the questions in the draft questionnaire should be targeted at particular merchant types, e.g. should the questions in Section D be targeted at traditional POS merchants.

**Focus on steering customers to other payment channels**

2.12 Section D of the draft questionnaire relates to other payment channels and includes 17 questions (of which merchants could be asked up to 15 questions). We understand that these questions relate to the PSR's first research objective, i.e. do merchants have credible alternatives to card-acquiring services for Mastercard and Visa.

2.13 As we submitted in our response to the merchant survey approach consultation, we recognise that it is relevant to understand what alternatives there may be to accepting payments made using Mastercard and Visa cards. However, we consider that this section

is unnecessarily long, particularly in light of our concerns regarding the overall length of the survey set out below.

2.14 Questions relating to alternatives to Mastercard and Visa cards are on the periphery of the PSR's scope (as set out in the Terms of Reference). Therefore, whilst it is important to include some questions on this topic in the survey, Worldpay submits that the current draft places undue weight on this section. The questions directly relating to card-acquiring services are at the heart of the PSR's scope and should therefore be the focus of the survey.

2.15 At a minimum, Worldpay suggests that this section is moved to the end of the survey (see comments above) so that merchants are more engaged with the questions on their purchasing behaviour and switching. We also consider that there would be benefit in removing some of the questions in this section. As noted in Section 2 below, a number of the questions in Section D are both speculative and hypothetical (asking merchants to guess how customers would react) and therefore are unlikely to provide meaningful information.

**Need for cognitive testing and a pilot survey**

2.16 We note that the PSR has stated that its intention is to conduct cognitive testing of the questionnaire and a pilot of the survey. We consider that this is particularly important in light of the draft questionnaire proposed by the PSR. In addition to the issues identified above, Worldpay is concerned that:

- the PSR's expectation that each interview will last around 20 minutes,[4] is unrealistic and we expect from our review of the questionnaire that most interviews will take significantly longer than this given that most of the questions are unprompted (which require merchants to consider their responses and therefore take longer). Worldpay considers that even if the survey is kept to 20 minutes there will be issues with engagement. As the CMA's survey guidelines note: *"Care should be taken not to burden the respondent with a survey that is too long. The quality of responses will deteriorate if the questionnaire is too detailed and time-consuming to answer… Ideally, the questionnaire should take no more than 10-15 minutes of a customer's time to answer"*;[5] and

- a number of the questions proposed by the PSR require detailed information from merchants that they may not be able to provide during an unscheduled telephone interview. For example, question A11 asks merchants to provide their business's turnover from card transactions in calendar year 2018, and question B2 asks what proportion of card payments they take by different channels. Questions that require detailed information are likely to result in either merchants providing inaccurate information or dropping out of the survey.

2.17 In light of these concerns, cognitive testing and a pilot survey are particularly important to understand merchants' understanding and engagement with the questionnaire, to test the survey length and to assess the appropriateness of the response coding. We would welcome the opportunity to engage with this process and we would expect that outcomes from this process will be shared with parties subject to the market review.

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[4] Question A2, page 3.
[5] Op. cit. paragraph 3.6.

2.18   In this regard, we note that the PSR has only allowed stakeholders a one week period to respond to the draft questionnaire. Worldpay considers that this is insufficient time given the importance of the survey in the PSR's review. Stakeholders were allowed three weeks to respond to the PSR's consultation on the proposed approach to the merchant survey. However, it is at least as important that stakeholders have an opportunity to comment on the draft questionnaire, since the questions asked will potentially have a greater impact on the results than the proposed methodology.

# 3   Responses to specific questions

**Section A**

| Question No. | Comments |
|---|---|
| A1 | Respondents may not know what card acquiring is, and even if explained (see "IF NECESSARY" section) they may not be able to distinguish providers of card acquiring services from ISOs, payment facilitators, technology providers etc. There are no questions to test merchants' understanding of card acquiring, so it is unclear how the necessity of an explanation will be assessed by the researcher.<br><br>The following text should be deleted from the wording of the "IF NECESSARY" prompt as it risks creating a response bias as respondents may see the survey as an opportunity to respond negatively: "*the findings of this research will inform the PSR's work and help the staff decide what action, if any, they should take to improve the outcomes for businesses*". |
| A2 | The same statement as in the "IF NECESSARY" prompt in A1 is also made in A2. We would suggest that this is also deleted due to the risk of creating a negative response bias. We note the same point in relation to necessity as in relation to A1. |
| A3 | |
| A4 | The respondent may not know what card acquiring is, and even if explained (see "IF NECESSARY" section) they may not be able to distinguish providers of card acquiring services from ISOs, payment facilitators, technology providers etc |
| A5 | The wording of this question implies that the researcher already knows a lot about the merchant's business, which may be viewed negatively. We would suggest that it would be better to ask each respondent who they currently use for card acquiring services. The response can then be compared to the records of the researcher for accuracy. |
| A6 | |
| A7 | The wording of this question does not follow for responses to A5 (i.e. those respondents that identify a different card acquirer to the researcher's records) – it does not necessarily follow that they are using more than one card acquirer as suggested by the wording of this question.<br><br>Whilst the table of alternative providers of card acquiring services includes payment facilitators, the list does not however include ISOs such as Paymentsense, Payzone, Handepay, and RMS. As the ISOs provide consumer facing services, it seems likely that some respondents will view the ISO as their card acquirer. |
| A8 | |
| A9 & A10 | We would expect many merchants will not be willing to disclose the specific details of their turnover in a telephone survey. A10, which provides respondents with turnover bands, may therefore result in a slightly higher response rate.<br><br>As noted above, there are no gentle introductory questions prior to asking about the merchant's turnover, which will potentially reduce engagement if merchants are unwilling to provide this information. |

| | |
|---|---|
| A11 & A12 | A11 is a very specific question that asks for the merchant's card turnover in 2018, which is unsuited to a telephone survey and which merchant's may be reluctant or unable to share. This is particularly the case if the PSR intends to use the accuracy of responses (when cross-checked against transactional data from separate information requests) to inform it as to the engagement of merchants. |
| | A12, which provides respondents with card turnover bands, may result in a slightly higher response rate. |
| | It should also be noted that this information may not be readily available for respondents to the survey, and they should be given the opportunity to check. |

## Section B

| Question No. | Comments |
|---|---|
| B1 | |
| B2 | This question does not ask if the proportion of card payments should by calculated by volume or by value (which can be quite different). |
| | The question also asks for quite specific and detailed information (card payments split between face-to-face, online, over the phone and by mail order) which may not be readily known by merchants, and not suitable for a telephone survey. Respondents should be given the opportunity to check or it could result in a number of inaccurate responses. |
| B3 | |

## Section C

| Question No. | Comments |
|---|---|
| C1 | Questions on switching are dealt with in section F so it is not clear why this question is asked here. |
| | A question that asks "have you ever switched" also needs to take account of the length of time that the merchant has been in business, which could otherwise bias the results (e.g. switching rates would be expected to be much lower for new start-ups and those that have been in business for a short period of time). |
| C2 | Questions on switching are dealt with in section F so it is not clear why this question is asked here. |
| C3 | |
| C4 | |
| C5 | This question only asks about which card brands the card acquirer allows the merchant to accept payments from. However, the question should also consider what alternative payment mechanisms (APMs) the card acquirer allows the merchants to accept payments from (e.g. ApplePay, SamsungPay, GooglePay etc.). |

| C6 | We would recommend that the wording is amended slightly to reflect the fees that are paid for <u>processing transactions</u> as opposed to other types of fees that may be payable by merchants. |
|---|---|
| | In practice many fees are likely to be combinations of the codes listed i.e. per transaction AND a fixed fee (e.g. a fixed fee for debit, and a % for credit card transactions, either also possibly having an additional % or fixed premium transaction charge for higher risk transactions). Accordingly, many responses will either be multi-coded depending on the merchants' understanding (as more than one option can be selected), or coded as 4 ("Other"), and without a guarantee of consistent naming by the surveyor, leading to misleading results. |

### Section D

| Question No. | Comments |
|---|---|
| D1 | This question seems to assume that merchants are accepting 100% business-to-consumer transactions. Responses may be very different for merchants processing business-to-business transactions. |
| | The coded responses should also distinguish between Paypal that is used as a Gateway to process Visa and Mastercard transactions, which may be seen by some respondents as accepting cards payments, and pre-funding a PayPal wallet. |
| D2 | This question only focuses on revenue and not volume, which may be difficult for respondents to identify. We note also that depending on the resolution of the comment above on B2, the responses here may be based on a different measure. |
| D3 | Need to exercise care if the merchant is not accepting 100% business-to-consumer transactions, as business-to-business merchants may respond differently. |
| D4 | The options to code responses to this question does not seem to recognise that offering a wide range of payment methods (including APMs) may be preferable for merchants. |
| D5-D13 | There are a disproportionate number of questions around the actions of businesses to influence their customers into not paying with Visa or MasterCard cards, which does not appear to be a key focus of the terms of reference. It is unclear why such weight is given to this line of questioning in the survey. In any event we note that there are no equivalent questions asking about merchants influencing customers towards paying by card. |
| | We also note that the term 'steering' may not be clear to merchants. In order to ensure accurate responses, we would recommend to ask for clarification or a definition to be provided if these questions are retained. |
| | It is also unclear that merchants are in a position to reliably evaluate the effectiveness of the steps taken by customers (e.g. D10 and D11). |
| | In D7, we note that the option for 'Other cards' is coded twice (code 1 and code 8). |
| D14 | Codes are vaguely specified and so may not be useful for the PSR. "A rise in fees/price" is abstract, and could be interpreted in many different ways by merchants. No sense of magnitude of any price rise is provided. No coding for |

| | situations such as "cheaper alternative options that customers can readily switch to". |
|---|---|
| D15 | This is both a speculative and hypothetical question about the behaviour of customers. Merchants are not well placed to answer questions about the possible behaviour of customers to a hypothetical scenario, and therefore the results will be unreliable or merchants will refuse to answer. |
| D16 | This is also a speculative and hypothetical question about the behaviour of customers. Again, merchants are not well placed to answer questions about the possible behaviour of customers, and therefore responses are likely to be unreliable or merchants will refuse to answer. |
| D17 | It is unclear from the wording of this question whether it refers to the proportion of the merchant's <u>total</u> customers they would expect to lose (which will vary depending on the amount of cash and other types of transactions accepted), or the proportion of the merchant's customers that pay by card.<br><br>Again the answers may also be skewed if it is a mix of business-to-consumer and business-to-business transactions. |

## Section E

| Question No. | Comments |
|---|---|
| E1 | The list of possible options should also include aggregators. |
| E2 | |
| E3 | We consider that this question is missing a number of important coded responses including: (i) security of payment solution; (ii) reliability of payment solution; (iii) aftercare, maintenance and support; (iv) speed of taking payments; and (v) clarity of pricing structure. |
| E4 | This question does not include a coded response to allow merchants to say that they did not consider other providers because (i) they were happy with the service/terms offered; (ii) the card acquirer had been recommended to them; (iii) they thought the offer provided was cheaper than other payment methods accepted; or (iv) it was not worth the effort as card acquiring services are relatively low cost. The question is therefore likely to produce a biased result by focussing only on negative responses (see comments above). We would therefore suggest adding more responses for coding to ensure balance. |
| E5 | We would suggest asking merchants how many times they have had to contact their card acquirer rather than a yes/no question, this will provide greater information.<br><br>The introductory wording to the question could also be amended slightly to refer to contact by "live chat" as well as by telephone and email. |
| E6 | We consider that this question is missing a number of important coded responses including: (i) help with reconciliation; (ii) password reset/access; (iii) security/fraud issues; (iv) charge backs; and (v) renewing/renegotiating with the card acquirer. In |

| | |
|---|---|
| | addition, we think response code 2 should be unbundled to differentiate between different issues, e.g. network outage, hardware issues, etc. |
| E7 | |
| E8 | |
| E9 | We consider that "PCI compliance" should be added as one of the coded responses.<br><br>Some respondents may not be familiar with the terminology used in responding to this question, and therefore further explanations may be required. |
| E10 | |
| E11 | We consider that it is worth adding "different contract terms" as another coded option to this question. |
| E12 | |

### Section F

| Question No. | Comments |
|---|---|
| F1 | This question asks merchants how frequently they undertake a review of card-acquiring services. However, the question only provides an explanation of what is meant by "review" if necessary. Some merchants may not receive the further explanation and may interpret the term "review" differently.<br><br>Answers will only be useful if there is a benchmark. Customers should ideally be asked how frequently they undertake a review of other inputs to their business as well in order to understand whether card-acquiring is reviewed more or less frequently. |
| F2 | We note that the survey does not ask respondents who have reviewed options why they have done this. For a complete and accurate view of the market and merchants' behaviour, we would recommend that questions asking merchants who have reviewed, why they have done so, to be included.<br><br>We suggest including additional response coding (either as a new option or as part of response 8) that refers to the limited importance of card-acquiring services. |
| F3 | |

### Section G

| Question No. | Comments |
|---|---|
| G1 | |
| G2 | |

| | |
|---|---|
| G3 | This question includes a relatively narrow definition of negotiating with your current card-acquiring provider, which may not capture all instances of a merchant engaging with their card acquirer and agreeing better terms. We suggest the question is expanded to also include the option of a customer contacting their provider and switching to a different tariff. |
| G4 | |
| G5 | |

### Section H

| Question No. | Comments |
|---|---|
| H1 | Coded response 14 refers to merchants motivated to switch to another provider as they *"Thought switching would be easier than in the past"*. However, it is not clear what is meant by this and as the question is unprompted we would expect the response rate to be very low. |
| H2 | See comment on Question F1 above. |
| H3 | See comments on Questions F1 and F2 above. |
| H4 | |
| H5 | This question is only asked to respondents that found the reviewing process either 'fairly difficult' or 'very difficult'. A similar question should also be asked to respondents that found the reviewing process either 'fairly easy' or 'very easy' in order to fully understand the reasons for this difference. |
| H6 | |
| H7 | As this question is unprompted, merchants are likely to underreport the providers of card-acquiring services they researched and compared, particularly if they compared providers more than 12 months ago. To correct for this bias, we suggest that the question is either asked as a prompted question only, or after asking it as an unprompted question, repeating the question with prompts for any providers the merchant did not mention (excluding providers that are not card-acquirers).

The table of alternative providers of card acquiring services includes payment facilitators, and tech providers (e.g. Square and iZettle) but the list does not include ISOs such as Paymentsense, Payzone, Handepay, and RMS. As the ISOs provide customer facing services, it seems likely that some respondents will consider ISOs as an alternative. |
| H8 | As mentioned in Section 1 above, this question is only asked to a sub section of merchants and does not necessarily relate to the merchant's current provider of card acquiring services. Worldpay considers it would be beneficial to ask this question to all merchants in relation to their current provider of card-acquiring services. |
| H9 | |

| Question No. | |
| --- | --- |
| H10 | |
| H11 | |

## Section I

| Question No. | Comments |
| --- | --- |
| I1 | See comment on Question H1 above. |
| I2 | See comment on Question F1 above. |
| I3 | See comments on Questions F1 and F2 above. |
| I4 | |
| I5 | |
| I6 | |
| I7 | See comment on Question H7 above. |
| I8 | See comment on Question H8 above. |
| I9 | |
| I10 | |
| I11 | This question asks merchants that have switched provider in the last year to identify any factors which would have helped make you more confident in making the decision to switch. However, the question is only asked to merchants that switched provider, many of whom may not have needed or wanted any further information. It is therefore likely to illicit a biased response by encouraging merchants to identify factors that may not have been important to them. |

## Section J

| Question No. | Comments |
| --- | --- |
| J1 | |
| J2 | This question is only asked if respondents answer "9" to the previous question (ie contract for card acquiring services will expire).  As card acquiring for micro-enterprises (as defined in PSR 2009 and 2017) does not tend to expire, but is rather terminable on 30 day notice at any time, it seems unlikely that that J2 will be asked to many respondents. It should also be noted that responses may be skewed to higher value customers. <br><br> It is not clear what information J2 is trying to illicit as the options do not relate to card acquiring. |

**Section K**

| Question No. | Comments |
|---|---|
| K1 | |
| K2 | |
| K3 | |