PSR Payment Systems Regulator

Working paper

Market review into card scheme and processing fees

Recent changes to scheme and processing fees

June 2023

MR22/1.6

Contents

Note: The places in this document where we have redacted confidential material are marked with [✂].

1 Executive summary

1.1 This working paper is the third published in the course of our Scheme and Processing fees market review. The purpose of these working papers is to set out our methodology, analysis and emerging thinking. In February 2023 we published working papers covering 'Competitive constraints' (MR22/1.4) and 'Approach to profitability analysis' (MR22/1.5). This paper (MR22/1.6) looks at documents produced by Mastercard and Visa to understand the factors that they consider when setting their fees. This analysis will inform the more comprehensive competitive analysis that we will undertake as part of our market review. Our competitive analysis will be synthesised from, among other things, our working papers and the responses to them, the financial and quantitative data we have collected, Mastercard and Visa's documents discussing their competitive landscape, submissions from providers of other payment methods and of services in the cards ecosystem, and evidence on the relationships between the schemes and their customers. This analysis will inform our interim report, the timeline for which is set out in our Terms of Reference.

1.2 In **Chapter 5** we publish some of our emerging thinking of how Mastercard and Visa approach fee changes.

1.3 First, of the approximately 40 changes analysed in this working paper, the largest revenue impact resulted from mandatory fees. Almost all the fee changes in our selection imply revenue increases for Mastercard or Visa. The increased revenue comes mainly from acquirers rather than from issuers.

1.4 Second, the rationale we most commonly identified in the documents is that these fee changes reflect the 'value' of the service to customers of the schemes. In most cases, however, the documents do not include any quantitative estimate of this value. Both Mastercard and Visa engage with customers primarily after they have already approved a fee, rather than as part of the work that leads to a fee change proposal.

1.5 Finally, internal documents often mention competition, for either issuers, acquirers or merchants, or the need for a fee to be 'competitive'. However, competition does not appear to have been an impediment to implementing material increases to mandatory fees, which comprised the majority of the fee changes we considered.

1.6 The documents do not typically include data on the costs to the schemes of providing the services affected by fee changes, except for the costs of introducing new, optional services. This, however, does not necessarily mean that covering costs is not an important factor in fee increases. When the cost base is mainly characterised by fixed costs common to multiple services, firms may not consider it necessary to analyse costs explicitly when approving incremental fee changes.

1.7 This emerging thinking does not represent our initial conclusions, which will be published in our interim report. We have not yet made any provisional or final decisions, including on potential remedies, as our market review is ongoing.

1.8 Contemporaneous documents relating to the factors that Mastercard and Visa considered most central for a specific decision provides important evidence of their perspective on the competitive conditions in which they operate and, together with evidence from other sources, can shed light on the competitive constraints Mastercard and Visa face. Nevertheless, it is subject to some limitations. First, the analysis focuses on a specific type of documents – those related to fee changes. It does not look at other documents in which Mastercard and Visa discuss their product offering and the wider competitive conditions in their industry. Second, the documents on which our analysis is focused were those prepared for senior decision makers, whereas the process leading to the implementation of fee changes is more complex and may involve informal discussions between members of several teams within Mastercard or Visa. Nonetheless, analysis on the factors which Mastercard and Visa consider when implementing fee changes, as evidenced in internal documentation and at a senior decision-making level, remains an important consideration for this market review.

2 Introduction

2.1 This working paper presents our methodology, analysis and emerging thinking to date of recent changes by Mastercard and Visa to their scheme and processing fees. Looking at recent changes to scheme and processing fees and what considerations underpinned them can allow us to better understand what factors Visa and Mastercard take into account when setting their fees. This, together with evidence from other sources, can shed light on the competitive constraints Mastercard and Visa face when setting their fees.

2.2 For this reason, in November 2022 we sent Mastercard and Visa formal information requests asking them to provide detailed information and internal documents on a selection of fee changes. Our aim was to cover the 20 fee changes implemented between 2017 and 2021 that were expected to have the largest revenue impact in the UK. Through separate formal information requests, we also asked acquirers and issuers to indicate the most significant fee changes that they had experienced in recent years and cross-checked the responses against the fee changes we selected for the analysis.

2.3 For the purpose of this paper, we define 'processing fees' as the fees associated with services required for handling a payment instruction between an acquirer and an issuer. These services include three core activities: authorisation, clearing and settlement – and potentially a number of value-added services, such as in the area of reporting and information services. Processing services are sometimes also referred to as 'network processing', 'interbank processing' or 'switching'.[1] We define 'scheme fees' as all other fees paid for services relating to participation in a card payment system.

2.4 When examining changes to scheme and processing fees between 2017 to 2021, there are two contextual elements to consider:

- In 2017 the requirement for a separation between the scheme and processing arms of a card scheme operator, mandated by the Interchange Fee Regulation, came into force. Some fee changes early in the period must be seen in this context.
- In June 2016 Visa Inc. acquired Visa Europe, starting the transition of Visa Europe from a member-owned association to a commercial entity.

1 The term 'processing' as used in this paper does *not* cover:

- 'issuer processing', which refers to all the activities that make up the management of card payments by an issuer, including transmitting transaction data, verifying card details, and checking whether a cardholder account has sufficient funds or credit in order to approve payments.
- 'acquirer processing', which refers to services that allow an acquirer to authorise transactions and, potentially, receive transaction settlement information.

2.5 This working paper presents our emerging thinking from our analysis of fee changes, using the information we have received to date. Our analysis is ongoing and we have not reached any provisional or final decisions or conclusions.

- **Chapter 3** explains what information we requested, the type of documents we received, and how this affected the scope of our analysis.
- **Chapter 4** provides separate summaries of the evidence on Mastercard and Visa's fee changes. It discusses whether the fees are mandatory, optional or behavioural, and why. It examines the extent to which the fees are UK-specific, how the fee changes affected different types of customers (for example, acquirers and issuers) and considers the rationales offered for the changes. In particular, we consider how the documents discuss the value and cost of the services, and the competitive constraints that Visa and Mastercard face.
- **Chapter 5** provides some general observations on the analysis. These are necessarily partial and preliminary, as they are the outcome of just one of several analytical workstreams that we are pursuing as part of our wider analysis of competitive constraints faced by Mastercard and Visa. A fuller understanding will only be possible once our market review is complete.
- **Chapter 6** sets out our next steps.

2.6 We list the fee changes included in our analysis in **Annex 1**. We provide a glossary at the end of the paper.

3 Evidence requested and received

Our objective in selecting the fee changes for our analysis was to identify the most significant changes that Mastercard and Visa introduced in the UK between 2017 and 2021 and investigate what these changes tell us about the reasons for fee changes and the competitive constraints that Visa and Mastercard face. However, the nature of the process does not rule out that we may not have captured all the fee increases which could have provided useful input to that investigation.

We asked for a wide range of evidence on each of the fee changes we selected, covering the rationale for the changes, the considerations that informed the decision on the size and structure of the fees, and the impact on issuers, acquirers and merchants. We also asked for internal documents covering these aspects.

The nature, content and number of the documents submitted by Mastercard and Visa reflect both companies' governance structures, including the extent to which their internal processes (both generally and for a particular fee change) include wider, unrecorded, discussions.

The selection of fee changes

3.1 Visa and Mastercard introduced a large number of fee changes between 2017 and 2021. Analysing the documents for all these changes would have not been feasible. We therefore decided to focus on a selection. Our aim was to focus on the 20 fee changes that Visa and Mastercard expected to have the largest impact their revenues in the UK. We based our selection on the *expected* rather than the *actual* revenue impact because, while Mastercard and Visa often develop initial revenue expectations when approving considering pricing changes, determining the actual impact of a fee change is more complex. [✂]. As actual revenue can differ from expected revenue, the fee changes with the largest expected revenue impact may not necessarily be those with the largest actual revenue impact.[2]

3.2 In line with the approach we outlined in our final Terms of Reference, we did not look systematically at fee changes before 2017. We focused on the period up to 2021 since, as explained below, our information request was partially based on information we received in early 2022. For practical reasons, however, when selecting fee changes we used different methods for Mastercard and Visa respectively, as detailed below.

2 Moreover, as all the revenue estimates in this paper are based on expected revenue, they may not reflect the actual impact of the fee changes we have analysed.

Mastercard

3.3 Our selection of Mastercard fees comprises three changes to processing fees and 17 scheme fees 'change events' (in some cases including simultaneous changes to more than one fee).[3] We provide the full list in Annex 1. We asked Mastercard to identify the fee changes between 2017 and 2021 with the largest impact on their revenues in the UK. Mastercard told us that this would require a disproportionate amount of work, as it would have to compute the revenue impact of all fee changes, which was not readily available. We therefore based our selection on an analysis of documents submitted by Mastercard in response to an earlier formal information request sent in January 2022, which covered all the changes to scheme and processing fees implemented during the period. While we aimed at identifying the fee changes which were expected to have the largest revenue impact in the UK, the documents did not always specify the impact at UK level. This is because Mastercard often decides and implements fee changes at the European or global level. Therefore, our selection was, in some cases, based on European-level data. It is therefore possible that some of the fee changes we excluded may have had a revenue impact in the UK larger than some of the changes we included.

3.4 Nevertheless, based on an analysis of the documents, the fee changes we selected account for:

- approximately 90% of the combined revenue impact of all scheme and processing fee changes for which the documents indicate an impact above [✂] million in annual revenue in the UK (or the UK and Ireland; [✂])
- around 60% of the combined revenue impact of scheme and processing fee changes for which the documents indicate a European-level impact above [✂] million.[4]

3.5 For this reason, we are confident that our selection covers most of the fee changes implemented during the period that had a material revenue impact in the UK.

3.6 Our selection also ended up including one fee change from in 2016 (as the document we used for the selection was not clear on the date of implementation) and one from January 2023 (as Mastercard had decided to delay its implementation compared to the timeline indicated in the documents we used for the selection). However, while our selection includes many of the largest fee changes implemented in the period 2017-2021, it does not necessarily include the largest fee changes implemented in the wider period 2016-2023.[5]

3.7 Our selection does not entirely overlap with the fee changes that acquirers and issuers mentioned as the most significant they experienced in recent years. While these customers did mention the fee changes with the largest revenue impact among those we selected, they did not mention several other fees that do appear in our selection. These fees typically have a lower revenue impact or relate to optional services (which certain customers may not take). Moreover, among the most significant fee changes listed by

3 One of the 'scheme fee' change events involved both scheme and processing fees. As the change was implemented before the introduction of the separation between scheme and processing fees mandated by the Interchange Fee Regulation, Mastercard classified it as affecting scheme fees.

4 We excluded from the calculation changes to fees related to Mastercard's open banking solutions or to Vocalink, rather than to its payment cards.

5 In particular, in the analysis below, the absence of significant fee changes in 2022 and 2023 is a result of the way the fees have been selected and should not be interpreted as indicating that no significant fee changes took place during the period.

customers are a number of events that are not included in our selection. Most of these[6] relate to a suite of behavioural fees collectively referred to as 'Transaction Processing Excellence'. While it is not always straightforward to identify these fees in the documents provided by Mastercard in response to the January 2022 information request, the estimated revenue impact of changes to fees with the same (or very similar) names appearing in those documents are lower than the corresponding values for the fee changes we selected.

Visa

3.8 In response to our request, Visa submitted a list of the most significant fee changes (in terms of the anticipated revenue impact in the UK) implemented between 2017 and 2021, together with an assessment of their anticipated revenue impact. Visa's list included 23 changes to scheme fees and six changes to processing fees. Of the changes to scheme fees, we selected 16 (grouping some of them into a single change); among those that were excluded, the one with the largest revenue impact in the UK was expected to generate only [✂] million on an annual basis. Of the changes to processing fees, only two had a revenue impact in the UK greater than [✂] million on an annual basis and were therefore included in our selection. We are therefore confident that the fees we have selected account for a large proportion of the overall revenue impact due to fee changes implemented during the period.

3.9 We decided to also include two recent fee changes with a significant expected revenue impact (implemented in 2023) to our selection.[7] As with Mastercard, although we have looked at fee changes outside of 2017-2021, our sample does not necessarily include the largest fee changes for the entire period considered (2017-2023).

3.10 Overall, we included two changes to processing fees and 15 changes to scheme fees. The full list is presented in Annex 1.[8] The number of 'fee change events' covered by our selection is fewer than 17 as several of these changes were planned and approved together. For example, in 2017, a set of four changes to scheme fees were implemented, which are typically discussed together in Visa's internal documents. In addition, the two changes to processing fees that we considered were jointly implemented in 2018.

3.11 The fee changes mentioned by acquirers and issuers as the most significant they have experienced from Visa in the period 2017-2021 overlap to a large extent with those we selected. Only two of the fee change 'events' have not been mentioned by any customer, while few of the changes mentioned by customers are not included.[9]

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6 Almost all the other fee changes for the period 2017-2021 not included in our selection have been mentioned by a single third party [✂], which however was able to negotiate with Mastercard and reduce the impact of most of these to zero. Customers also mentioned a number of fee changes implemented in 2022, which is beyond the period covered by the information request sent to Mastercard.

7 The expected revenue impact of these two changes, of which Visa had made us aware, was significantly larger than that of any of the changes introduced between 2017 and 2021 that we did not include in our selection.

8 In its response to our formal information request, Visa discussed the two changes to processing fees jointly. For this reason, they have been listed as a single change in Annex 1.

9 Most of the fee changes in 2017-2021 not included in our selection have been mentioned by a single third party, which however was able to negotiate with Visa and reduce the impact of most of the new fees to zero. Customers also mentioned a number of fee changes implemented in 2022, which is beyond the period covered by the information request sent to Visa.

Documentary evidence

3.12 For each of the fee changes included in our selection, we asked Mastercard and Visa for information and documents on:

- the service associated with the new or changed fee
- the rationale for the change
- engagement with customers prior to implementation
- competition for the service associated with the fee
- the considerations that informed the decision on the magnitude of the fee change (or the level of a new fee), the structure of the fee and its optionality (that is, whether it was mandatory, opt-in or opt-out)
- the reason why the fee was applied to only a specific type of customers (for example acquirers, issuers, merchants) or, if applied to more than one group, the considerations that determined the split between the different groups
- the impact on Mastercard/Visa's revenue from the new or changed fee across issuers, acquirers and merchants
- whether – and, if so, how – the fee change was associated to any changes in payments made to issuers or acquirers

3.13 We asked for *all* of the documents that decision-making bodies within Mastercard and Visa used when considering each fee change, or which informed any assessment included in such documents, which refer to the rationales for the change, or that set out the considerations that informed the choice of the specific level of the fee.

3.14 We also asked Mastercard and Visa to provide evidence, including relevant supporting documentation, on competition for the relevant services, and on the considerations informing the decision to apply a fee to a specific category of customers, the structure of the fee, and associated payments to issuers or acquirers.

3.15 Both Mastercard and Visa submitted internal documents along with narrative responses to these questions, answering separately for scheme and processing fees. The nature, content and number of the documents reflect the governance structures of each company.

Overview of Mastercard's responses

3.16 For the fee changes considered in this analysis, Mastercard provided [✂] internal documents, ranging between [✂] and [✂] documents per fee change. These include [✂] presentations [✂], spreadsheets [✂] and [✂]. Our selection included fee changes specific to the UK and Ireland, fee changes specific to Europe, and global changes. The documents we received reflected the slightly different governance processes for these different types of decisions.

3.17 Mastercard explained that the team developing pricing proposals for Europe engaged in extensive consultation across Mastercard Europe. Similarly, a UK team develops UK-specific pricing proposals.

3.18 [✂]

3.19 [✂]

3.20 [✂]

3.21 The documents we received from Mastercard in response to our request were mainly papers to the body deciding UK and European pricing decisions.

Overview of Visa's responses

3.22 Visa provided [✂] documents, ranging between [✂] and [✂] documents per fee change. These include presentations [✂], minutes [✂], and [✂].

3.23 Visa explained that the team developing pricing proposals engaged in extensive consultation across Visa Europe. [✂].

3.24 [✂]

3.25 [✂]

3.26 [✂]

3.27 [✂]

3.28 In our view, it is often difficult understand from the documents alone why Visa chose a specific fee structure or rate. [✂]. Visa provided further explanation for its fee changes as part of our engagement and its written submissions.

4 Summary of the evidence

This section analyses the evidence we have received from Mastercard and Visa. Although there are differences between the two scheme operators, our current view is that, overall, the evidence reveals the following points:

- Changes to mandatory fees account for the majority of expected revenue impact from the changes in our selection.
- Changes to mandatory fees often include a UK-specific component, especially in relation to domestic or card-present transactions. Meanwhile changes to optional fees tend to be implemented uniformly across Europe.
- The increase in revenue expected from the fee changes comes mainly from acquirers.
- One of the rationales for the fee changes most commonly mentioned in the documents is that they reflect the value of the service to customers. In most cases, however, the documents do not quantify such value.
- Competition mainly appears in the documents as a factor influencing decisions involving the introduction of, or changes to, some value-added services. It is also mentioned in relation to an optional service to issuers and to core processing services.
- The documents rarely include data on the costs associated with the services affected by fee changes. However, this data is typically provided for fee changes relating to the introduction of new optional services.

Mastercard fee changes

4.1 Based on our analysis of Mastercard's documents and evidence, we estimate that the fee changes in our selection resulted in a combined expected increase in net revenue from UK customers of £[✂] million in annual net revenue.[10] This number is an approximation. We have typically taken the revenue impact in the first full year of implementation of each fee change. However, the impact of many fees changes over time, due to factors such as changes in the overall volume or composition of card transactions. In addition, [✂] Mastercard had to use a series of assumptions to obtain an estimate.

4.2 Mastercard's internal documents [✂]. Mastercard explained [✂]. In some cases, however, the difference between net and gross revenue [✂]. Most of these cases relate to fees charged on issuers. We have used net revenue estimates in this paper, when these were available.

10 Mastercard's estimates for the revenue impacts of fee changes are expressed in euros or US dollars. In order to convert them into pounds, we have applied the yearly average exchange rate for the year in which the fee change took place, as computed by the Office for National Statistics. This may be different from the year in which the revenue was realised. For fee changes implemented in 2023, we have used the average exchange rate for 2022.

4.3 The composition of Mastercard's fees changed substantially in 2017. In that year, the requirement that card scheme operators to separate their scheme and processing arms, as mandated by the Interchange Fee Regulation, came into force. [✂], as shown in Figure 1. These changes are discussed in greater detail in Box 1 below.

Figure 1: Revenue impact of selected fee changes by year of implementation (£m)

[✂]

Box 1: Mastercard's restructuring of scheme and processing fees in 2017

In 2017, Mastercard introduced changes to the level and structure of both scheme and processing fees in Europe, in view of the separation between the two parts of its card business. Overall, the changes resulted in:

- A [✂] in processing fee revenue from UK customers, focused on domestic (and intra-European) transactions and low-value payments
- A [✂] in scheme fees revenue from UK customers

The net impact of the changes was a [✂] [0-5]% increase in revenue, with a fee reduction on the issuer side of around [✂] [5-10]% and an increase on the acquiring side of approximately [✂] [5-15]%.

The documents suggest to us that the reduction in processing fees was motivated by the following goals:

- [✂]
- [✂]

4.4 This section summarises the evidence we have received on Mastercard's changes to scheme and processing fees, under the following themes:

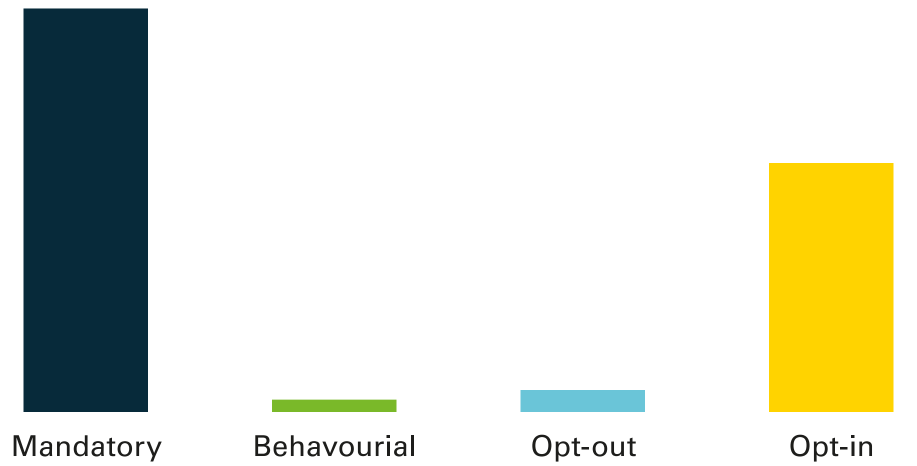
- **Optionality**: The incidence of mandatory, behavioural and optional fees in our selection, and the reasons why some services are made mandatory or opt-out.
- **Geographic scope**: The extent to which fee changes are specific to the UK or apply to a wider region.
- **Impact on acquirers and issuers:** The extent to which the fee changes in our selection affect issuers and acquirers and the revenue impact on the two sides.
- **Rationales for fee changes:** An overview of the rationales mentioned in Mastercard's documents.
- **Value and 'fair share':** How, when implementing a fee change, Mastercard assesses the value of the service it provides and how the fee level is linked to that value.
- **Competition:** A review of the fee changes for which competition is one of the stated rationales or is explicitly taken into account when setting the fee level.
- **Costs:** An analysis of the instances in which cost information is included in Mastercard's documents.
- **Customer engagement**: The extent to which Mastercard engages with customers and seeks their feedback on fee changes.

Optionality

4.5 In its response to the formal information request, Mastercard classified both scheme and processing fees as either mandatory, opt-out (customers are signed up to the service unless they actively choose not to receive it), or opt-in (customers must actively choose to receive the service). We reclassified one of the opt-in fees as 'behavioural'.[11,12] As customers are not required to source processing services from Mastercard for transactions involving a Mastercard card, processing fees are not strictly speaking mandatory. Nevertheless, Mastercard classed a processing fee as mandatory if the fee must be incurred when a transaction is processed by Mastercard. In practice, with the exception of some 'on-us' transactions in which the same firm operate as both the acquirer and the issuer, all other transactions involving a Mastercard card in the UK are currently processed by Mastercard itself – that is, Mastercard authorises, clears and settles all such transactions. In the rest of the analysis, when looking at fee changes in aggregate, we will not distinguish between scheme and processing fees.

4.6 The majority of fee changes in our selection relate to mandatory fees, as shown in Figure 2 below.

Figure 2: Revenue impact of selected fee changes by optionality (£m)



4.7 Mastercard stated that many of these mandatory fees are integral to running the scheme, or to supporting the functions of authorisation, clearing and settlement in the case of processing fees. These fees are not associated with any specific service but with participation in the scheme itself.

11 We also re-classified the MOTO fee as mandatory whereas Mastercard had indicated it as optional for acquirers [✂].

12 Definitions are provided in the Glossary.

4.8 Mastercard also mentioned other reasons why some fees were made mandatory. The first is the presence of network effects. Mastercard mentioned this as applying to the fees on two services:

- **Mastercard Cyber Secure**: A suite of cyber security and risk management capabilities for issuers and acquirers. According to Mastercard, [✂]
- **Safetynet**: A tool designed to monitor the transactional traffic of Mastercard's network and avoid large-scale fraud events. The associated fee is charged to issuers. Mastercard explained that [✂]

4.9 In contrast with the reasons set out above, Mastercard offered a different explanation for the mandatory fees charged to acquirers for Mastercom Acquirer Collaboration. This service allows small merchants to avoid a chargeback process by agreeing to solve the dispute with the issuer through the intermediation of the acquirer. Acquirers, however, typically charge merchants for chargebacks, so they may have a financial incentive not to facilitate dispute resolution outside the chargeback process. While participation by merchants is optional, Mastercard explained that it was necessary to make the service mandatory to acquirers to address the misalignment of incentives between merchant and acquirer. Specifically, this mandatory service is necessary to allow the merchant to make an informed decision on whether to dispute the chargeback or not.[13]

4.10 Our selection includes three changes to opt-out fees: these relate to two scheme services to issuers – AI Account Intelligence and Accountholder Authentication Value (AAV) validation – and to a suite of non-core processing services provided to acquirers – Transaction Investigator and Portfolio Analytics.[14] In some cases, Mastercard replaced a legacy service for a new one; in the case of AI Account Intelligence, Mastercard introduced the fee after offering a six-month free trial of the service. In these three instances, Mastercard explained that it made the fees opt-out [✂].

4.11 One of the changes in our selection involved a change of optionality. In September 2019, AAV validation changed from opt-in to opt-out. Mastercard explained that from that month on AAV validation was going to be required under the revised Payment Services Directive (PSD2). Although customers can source the service from other providers, Mastercard decided to make it opt-out [✂]

4.12 The evidence suggests that customers have been able to opt out of these services.

- 12 months after the introduction of the fee on AI Account Intelligence, [✂] issuers had opted out of receiving the service. PSR data for March to August 2022 shows these issuers account for [✂] of the volume and value of transactions by Mastercard's UK cardholders.
- [✂] issuers have opted out of AAV validation for [✂] of their card Bank Identification Numbers (BINs). PSR data for March to August 2022 shows that these issuers account for almost [✂] of transactions by Mastercard's UK cardholders.

13 The expected revenue impact of this mandatory fee in the UK is [✂].

14 For a short description of these services, see Annex 1.

- Mastercard data on UK acquirers shows that, as of February 2021, [✂] existing acquirers in 2019 opted out of Portfolio Analytics, with [✂] of these opting out of Transaction Investigator. PSR data shows that at that date these [✂] acquirers accounted for approximately [✂] of the volume and [✂] of the value of Mastercard transactions acquired by UK-based acquirers.

4.13 Our selection includes 13 changes to opt-in fees. Those with the largest revenue impact are relate to 3D Secure, a service providing Strong Customer Authentication. Eight other fee changes have a revenue impact of at least £[✂] million each on an annual basis, and six of them relate to the introduction of new or improved optional services.

4.14 Finally, among the fee changes we selected there is only one that we classified as behavioural – a fee paid by acquirers for use of a non-chip-and-PIN) or non-contactless POS terminal.

Geographic scope

4.15 Among the changes to mandatory fees in our selection, those with [✂] typically do not apply uniformly across the whole of Europe. These include:

- The introduction of card-not-present (CNP) pricing in Europe in 2018. While this changed fees across Europe, fees for domestic transactions were set in the UK and Ireland at a [✂] level [✂]. By contrast, fees for intra- and inter-regional transactions were set uniformly across Europe.[15] For a discussion of the reasons for the difference between the UK and Ireland and the rest of Europe, see paragraph 4.36.
- A revision of the acquiring volume fee, specific to [✂].

4.16 The 2017 rebalancing of scheme and processing fees discussed in Box 1 above, although involving the entire European region, was also implemented differently across different countries. For example, [✂].

4.17 Several other changes to mandatory fees, however, were implemented at a European level. These changes are of two types:

- Changes related to fees on mandatory cyber security services, priced [✂].
- Changes extending the scope of existing fees to new categories of transactions. [✂].

4.18 Most changes to optional fees in our selection were applied [✂]. The only exceptions were [✂].

4.19 Finally, the only behavioural fee in our selection (charged on transactions made using non-chip-and-pin or non-contactless terminals) [✂].

15 [✂]

Impact on acquirers and issuers

4.20 A similar number of changes in our selection affect acquirer-side and issuer-side fees, with many changes affecting both sides. Of the 25 fee changes listed in Table 1 in Annex 1, 19 affect acquirer-side fees and 20 affect issuer-side fees. In particular, all the changes to mandatory fees in the selection affect fees on both sides, while the side affected by changes to optional fees depends on which type of customers the related service is offered to.

4.21 The fact that a fee change affects both sides of the market, however, does not necessarily mean that the two sides are affected equally. The data provided by Mastercard does not always allow the separation of the revenue impact of fee changes on acquirers and issuers. However, it is evident from the data that most of the revenue increase Mastercard obtained from the changes we have considered has come from acquirers. This is particularly the case when mandatory fees are considered, as shown in Figure 3 below.

Figure 3: Revenue impact of selected fee changes by type of customer (£m)

[✂]

4.22 In relation to the types of cards affected by the changes, none of the fee changes in our selection differentiate between debit and credit cards, neither do the internal documents consider the impact of the change separately for different types of cards.

Rationales for fee changes

4.23 Fee changes can involve either a revision of fees for existing services or the introduction of new fees, often alongside the launch of new or improved services. Among the fee changes we selected, the frequency of these two cases varies between mandatory and optional fees.

- In most cases, mandatory fees in our selection were not associated with any specific service, but rather with participation in the scheme. Changes, therefore, were not usually directly associated with the introduction of new services, although Mastercard told us that the underlying services have undergone continued improvements. A small number of the increases of mandatory fees, however, were associated with the launch of new versions of services for cyber security and fraud detection.[16] These account for [✂] of the overall revenue impact from changes to mandatory fees in our selection.
- Increases in optional fees appear more likely to accompany the introduction of new services. However, price revisions to already existing optional services account for [✂] of the revenue impact from optional fees in our selection. Mastercard told us that the underlying services are constantly improved.

4.24 Many of the proposal documents associated with changes that Mastercard has proposed since 2019 and carried out since 2020 [✂]. They are: [✂]

4.25 [✂] Mastercard's internal documents typically include a discussion of the reasons why it is changing a fee. We have grouped these rationales into eight categories, based on our interpretation of the documents. In Figure 4 below, the length of each bar corresponds to the combined revenue impact of the fee changes from our selection that fall into

16 An additional mandatory fee associated to a new service is the one discussed in paragraph 4.9.

each category.[17] Figure 5 shows the number of fee changes to which each of these rationales apply. As fee changes can have more than one rationale, the same fee change, and the associated revenue impact, can be included under multiple rationales.

Figure 4: Revenue impact of selected fee changes by rationale (£m)

[✂]

Figure 5: Number of selected fee changes by rationale

[✂]

4.26 The eight rationales are described in more detail below:

1. **Reflecting value of the service**: This is rationale we identified most frequently both in Mastercard's internal documents and in Mastercard's narrative response. In the narrative response Mastercard often expresses this in terms of capturing [✂]. We discuss how Mastercard assesses the value of a service in greater detail in paragraphs 4.28 to 4.31 below.
2. **Simplifying the fee structure**: We identified this rationale in relation to a change to mandatory scheme fees implemented in 2021. [✂] The same rationale appears in relation to the replacement of several processing fees with a byte-based data usage fee. The rationale applies to the structure of a fee, rather than to its level.
3. **Creating a level-playing field:** We identified this rationale in relation to the 2021 change discussed under rationale 2. [✂] Like rationale 2, this reasoning only applies to the structure of a fee, rather than to its level.
4. **Responding to customer need / creating value**: We typically identified this rationale in relation to new optional services. Internal documents related to these changes typically include a discussion of [✂]. In other cases the documents do not specify how Mastercard identified [✂]. The same rationale is also mentioned in relation to improvements introduced in cyber security and fraud detection services, which are included among the mandatory fees; [✂].[18]
5. **Encouraging change of behaviour**: We identified it as the [✂] for the change to a behavioural fee in our selection. It is also used to justify a change to a mandatory scheme fee [✂].
6. **Responding to / accounting for competition:** We identified this rationale in relation to [✂]. A more detailed discussion is developed in paragraphs 4.32 to 4.36 below.
7. **Incentivising transition to a new product**: We identified this rationale in relation to [✂] fee changes, which are aimed at incentivising customers' transition from a legacy service to its new version.
8. **Incentivising correct reporting:** We identified this rationale in relation to [✂].

17 In some cases, a single fee change may include several components, and we identified a specific rationale only for one of those components. The revenues in the chart, however, represent the overall impact of fee changes. As such, the chart may show some of the rationales as associated to a larger revenue impact than they would in practice.

18 [✂] one of the issuers responding to our information request explicitly mentioned them as examples of services that have been beneficial to itself and its customers. [✂]

4.27 We supply a full list of Mastercard fee changes with rationales including 'value' or 'competition' at Annex 1, Table 2.

Value

4.28 As Figures 4 and 5 reveal, the value of the service and [✂] are the rationale that we identified most frequently for Mastercard's fee changes. [✂].

4.29 In some cases, Mastercard refers to [✂] similar services [✂]. In other cases, [✂] value is interpreted [✂]. In most of these cases, the assessment and measurement of value in these documents is limited, [✂].

4.30 [✂]

4.31 In three cases among the fee changes we considered there is an attempt to quantify the value of a service.

a. The first is the case of 3D Secure, an optional set of authentication services for issuers and acquirers. [✂].

b. The second case concerns the introduction of CNP pricing in Europe. This is a mandatory fee for acquirers and issuers. [✂]

c. The third case comes from an internal document related to the launch of Mastercard Linked Payment Loyalty Platform. The proposed fee structure is complex, involving payments to Mastercard from both issuers and merchants, and sharing of merchants' payments between Mastercard and issuers. [✂].

Competition

4.32 Based on our analysis of Mastercard's documents, we have identified three categories of services affected by fee changes in our selection for which competition is considered.

4.33 The first category includes optional scheme services where Mastercard competes with third-party providers. [✂] In our selection of fee changes, these products are:

- Services aimed at giving merchants the opportunity to avoid chargeback process.
- A loyalty service platform (Mastercard Payment Linked Loyalty Platform).
- A service that allows businesses to use their card to pay directly into a bank account; this service is also aimed at expanding the use of cards to types of payments where cards are currently not used, so competition also exists with non-card payment methods (bank transfers).

4.34 The second category consists of a single optional scheme service: AI Account Intelligence (see paragraph 4.10). In this case, competition does not appear to be with third-party providers, but with other card schemes. The service '*provides issuers relevant and actionable scores to help improve their business: identify the most important customers, those with relevant opportunities and timely action*'. The associated internal document states that the new [✂].

4.35 The third category includes core processing services. When Mastercard rebalanced its scheme and processing fees in 2017, one of its rationales was [✂]. Competition on processing fees came either from domestic schemes operating in several European countries, or from 'integrated processors.' However, a report produced for Mastercard [✂].

4.36 [✂]

Costs

4.37 Some internal documents include specific data or considerations around the cost of the underlying services. In particular, margin information is provided in the documents relating to five fee changes. These can be divided into two groups:

- a group of four new optional services
- the rebalancing in 2017 of scheme and processing fees

4.38 The internal documents include margin data on half the new optional services in our selection. The targeted level of gross margin varies across these services from [✂]% to [✂]%. The services concerned are:

- **AI Account Intelligence**: This opt-out service to issuers was expected to generate a [✂]% margin over five years.[19]
- **Mastercard Linked Payment Loyalty Platform:** This was expected to initially require rebates and discounts, [✂]. Over [✂] years from launch, however, the expected margin is [✂]%.[20] The launch of this service was however unsuccessful and the product was discontinued.
- **Mastercard Dispute Resolution – Claims Manager:** This product was also expected to have [✂], but to generate an average gross margin of around [✂].[21]
- **Mastercard Instalment Payment Services:** The [✂] document related to these services does not detail their costs, but indicates what price would be necessary [✂]

4.39 We have also seen margin data on the 2017 rebalancing of scheme and processing fees before the two parts of Mastercard's business were separated (see Box 1 and paragraph 4.35). [✂]

4.40 The starting point of the price change was therefore the cost base of the [✂] processing business, which was estimated at [✂], including direct and indirect costs. [✂] of this was labelled as 'Mastercard International Cost'. The plan (according to the document) was to [✂] across the Single Euro Payments Area (SEPA),[22] with a [✂] buffer that would have allowed Mastercard [✂].

19 [✂]
20 [✂]
21 [✂]
22 [✂]

4.41 Internal documents provide some cost information on two other fee changes. The first is the 'New Connectivity fee', which consisted of the restructuring of a mandatory processing fee (see Box 2 below). An email sent to the person responsible for approving the fee change reports that [✂] the relevant team '*forecasted total* [✂] *Costs* [✂] *to grow* [✂]*% YoY.*' [✂].

4.42 The last fee change for which the internal document includes some cost information is the pricing revision for 3D Secure. The document reports that [✂]. This is the only cost figure in the document, but it is unclear whether it represents the full investment required for the improved authentication service. [✂]

Box 2: Mastercard's New Connectivity fee

Starting from January 2023, Mastercard introduced the New Connectivity fee, replacing the former File Transmission, Connectivity and Back-Up Connectivity fees with a byte-based data usage fee. The documents Mastercard submitted in relation to this change are unique among the fee changes we analysed as they assess the pros and cons of alternative fee structures. They therefore allow us to understand why Mastercard chose a particular fee structure.

One of the documents compares three possible fee structures:

- [✂]
- [✂]
- [✂]

Revenue estimates show that [✂].

These differences are reflected in the pros and cons of each option mentioned in the document.

- [✂]
- [✂]
- [✂]

[✂]

4.43 In summary, we observe that:

- Cost data or considerations are never mentioned in internal documents on changes to mandatory scheme fees. Nor are they included in documents on existing optional scheme services – with the exception of authentication services, as discussed above.
- Internal documents on new optional scheme services do typically include cost considerations. Where they are not present, third-party prices are used as benchmarks.
- Cost considerations formed the basis for the price rebalancing for processing services in 2017. [✂] Cost considerations typically do not appear in the discussion of later changes or in documents regarding optional processing services – with the partial exception of the New Connectivity fee, as discussed above.

Customer engagement

4.44 Mastercard's engagement with customers in relation to fee changes typically takes place *after* it has already approved a change.[23] As Mastercard explains in its narrative response, '*Mastercard informs customers of the changes through its regular communication channel, Mastercard Connect. All customers will receive this communication before implementation. In addition,* [✂].

4.45 We identified only one instance among the fee changes we selected where, based on the documents Mastercard provided, customer feedback played a role in decision-making on a fee change: the introduction of the acquirer authentication exemption. Mastercard explained that [✂].

Visa fee changes

4.46 Based on the information that we received from Visa, we estimate that the fee changes in our selection resulted in a combined expected increase in net revenue from UK customers in the order of [✂] million in annual net revenue.[24] As for Mastercard, this figure is an approximation. We have typically taken the revenue impact in the first full year of implementation of each fee change, despite the fact that the impact of many fees changes with time (because of changes in the overall volume or composition of card transactions, for example.) In addition, Visa also explained that [✂], Visa provided a series of assumptions to help the PSR obtain an estimate of first-year revenue impact in the UK.[25]

4.47 [✂]

4.48 This section summarises the evidence we have received of Visa's changes to scheme and processing fees, under the following themes:

- **Optionality:** The incidence of mandatory, behavioural and optional fees in our selection, and the reasons why some services are made mandatory or opt-out.
- **Geographic scope**: The extent to which fee changes are specific to the UK or apply to a wider region.
- **Impact on acquirers and issuers:** The extent to which the fee changes in our selection affect issuers and acquirers and the revenue impact on the two sides.
- **Rationales for fee changes:** An overview of the rationales mentioned in Mastercard's documents.

23 Of course, the introduction of new optional services must be based on Mastercard's understanding of customers' demand for the service and on their willingness to pay.

24 Visa's estimates for the revenue impacts of fee changes are expressed in US dollars. In order to convert them into Pounds, we have applied the yearly average exchange rate for the year in which the fee change was implemented, as computed by the Office for National Statistics. This may be different from the year in which the revenue was realised. For fee changes implemented in 2023, we have used the average exchange rate for 2022.

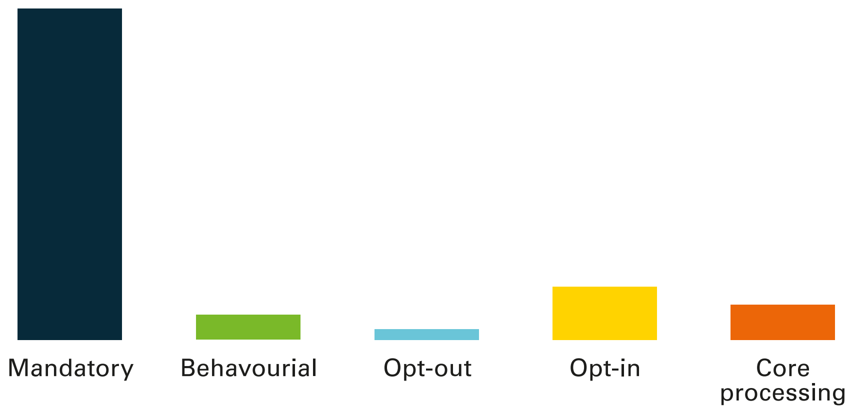
25 Comparing the absolute values of the revenue impact of Mastercard and Visa's changes selected for the analysis is not a meaningful exercise. The values depend, among other things, on how the selections were made and on the extent to which the estimates account for waivers or incentives. Moreover, the same proportional increase in fees would result in a larger total impact for the card scheme operator that accounts for the larger transaction value in the UK.

- **Competition:** A review of the fee changes for which competition is one of the stated rationales or is explicitly taken into account when setting the fee level.
- **Costs:** An analysis of the instances in which cost information is included in Mastercard's documents.
- **Customer engagement**: The extent to which Mastercard engages with customers and seeks their feedback on fee changes.

Optionality

4.49 Visa's response to us classified scheme fees as either mandatory, optional or behavioural. The changes to processing fees in our selection all relate to 'core processing': the fees are therefore unavoidable as long as the transaction is processed by Visa. While customers do not have to source processing services from Visa for transactions involving a Visa card, in practice nearly all Visa transactions accepted by a UK merchant are currently processed by Visa; that is, Visa authorises and clears/settles nearly all Visa transactions accepted by a UK merchant.

Figure 6: Revenue impact of selected fee changes by optionality (£m)



4.50 Many of the scheme fee changes in our selection relate to mandatory fees (see Figure 6). Visa has described these as 'core fees'. That is, they are not associated with any optional service, but with the service that is the use of the Visa card scheme. These fees include CP and CNP service fees charged to acquirers, and cross-border scheme fees charged to acquirers and issuers (see Box 3).

Box 3: Changes to Visa's international fees

Changes to international fees account for [✂] of the revenue impact of the changes we analysed to Visa's mandatory fees. These include:

- Changes implemented between 2017 and 2020 to fees charged to acquirers:
  - the International Acquiring Fee, charged on CP and CNP international transactions, increased from 30 to 45 bps in 2017
  - the International Service Assessment Fee, charged only on CNP international transactions, increased from 10 to 55 bps between 2018 and 2020
- The introduction in 2021 of cross-border fees for transactions between the UK and the EEA, whose levels were set lower than those applying to other international transactions.
  - the International Acquiring Fee was set at 10 bps for CP transactions and at 25 bps for CNP transactions
  - the Issuer International Service Assessment Fee varied between 10 and 50 bps depending on the type of transaction and card.

International transactions were also part of the changes to Visa's acquirer core processing fees introduced in 2018. At a European level, the changes resulted in an expected gross revenue increase from intra-regional and inter-regional transactions both being nearly [✂] times those of domestic transactions [✂]. These figures, however, do not account for the expected provision of incentives to the customers most affected by the increases.

* Visa submitted that some of these changes were related to its transition from a member association to a commercial entity as a result of the acquisition of Visa Europe by Visa Inc.

4.51 Among the fee changes we selected for our analysis, only one related to an opt-out service. Visa Analytics Platform (VAP) is a self-service, web-based analytics solution, providing Visa clients (in this case, issuers, co-brand merchants and acquirers) with data on payments and customer behaviour. This is also the only case in our selection where Visa moved away from a product that was offered on an opt-in basis to a new product that was offered on an opt-out basis. Visa explained to us that, in this case, VAP replaced a previous opt-in service (known as Visa Vue Online) and offered a '*more comprehensive and integrated data solution.*' Visa explained to us that [✂].

4.52 Of the three changes to opt-in fees in our selection, 3D Secure fees account for the vast majority of the revenue impact.

4.53 The combined revenue impact of the behavioural fees in Figure 6 reflects the removal of a behavioural fee in 2021 that was previously charged to issuers. This change resulted in a reduction in revenue of approximately £[✂] million.

4.54 Based on our analysis, recently introduced behavioural fees tend to have a [✂] revenue impact. An exception is [✂].

Geographic scope

4.55 Most of the fee changes in our selection were made at the European level and did not differentiate between the UK and other European countries.

4.56 There is a clear difference between changes to mandatory fees introduced in 2017 to 2018 and those introduced in 2020 to 2021. Fees in the first group were mainly aimed at [✂] and were therefore introduced across Visa's Europe region. [✂]. The more recent fee changes [✂], included a component specific to the UK, or the UK and Ireland.

4.57 The three changes to mandatory fees for the period 2020 to 2021 are as follows:

- A revision of the acquirer service fees. The fee levels for CP transactions were determined based on the circumstances in each country within the Visa Europe region, while fees for CNP transactions were implemented uniformly across Visa's Europe region.
- A 'freeze' on the increase in acquirer service fees for some categories of merchants (the Everyday Spend programme discussed in paragraph 4.75), specific to the UK and Ireland.
- The changes to UK-EEA cross-border fees in 2021.

4.58 Changes to optional fees were generally introduced at the level of Visa's Europe region. The only exception among the fee changes we analysed is [✂].

4.59 All behavioural fee changes in our selection were [✂].

Impact on acquirers and issuers

4.60 Most of the fee changes in our selection only affect acquirer-side fees. Of the 15 changes to scheme fees, 14 affect fees charged to acquirers and only 6 modify fees charged to issuers. The difference is more pronounced if we focus on the 8 changes to mandatory fees. These all affect acquirer-side fees, and only one also relates to issuer-side fees. The side affected by changes to optional fees depends on which type of customers the related service is offered to.

4.61 The changes to core processing fees in our selection are only charged to acquirers. [✂].

4.62 The difference between acquirers and issuers is even more striking in terms of the revenue impact from the changes in our selection, as shown in Figure 7 below. The data provided by Visa allows us to separate the impact on acquirers and issuers for most of the fee changes we selected. If we consider only those changes for which the impact can be split, changes on the issuer side led to an aggregate reduction of fee revenue for Visa.

Figure 7: Revenue impact of selected fee changes by type of customer (£m)

[✂]

4.63 In relation to the types of cards affected by the changes, most of the changes in our selection do not differentiate between debit and credit cards. There are only three changes to mandatory fees which introduce differentiated charges for debit and credit cards:

- The introduction of flat acquiring fees in 2017, replacing a formerly tiered structure. The fee levels were set at 1 bps for debit transactions and 1.4 bps for credit transactions.

- Further changes to acquiring fees in 2020, which increased by 0.8 bps for debit transactions and 0.9 bps for credit transactions.[26]
- The introduction of cross-border fees for transactions between the UK and the EEA. This change only differentiated between credit and debit transactions on issuer-side fees on CNP transactions. These account for a small proportion of the overall revenue impact of the fee change.

4.64 The internal documents on all the changes we examined do not assess the impact of any change separately for different types of cards.

Rationales for fee changes

4.65 Fee changes can involve either a revision of fees on existing services or the introduction of new fees, often alongside the launch of new or improved services. Among the fee changes we selected, the frequency of these two cases varies between mandatory and optional fees:

- None of the increases in mandatory fees in our selection was in response to the introduction of new services – although Visa explained that the underlying services have undergone continued improvements.
- Increases to opt-in or opt-out fees often followed the introduction of new services or significant improvements to existing ones. The only exception is the introduction, in April 2023, of a fee for Cardholder Verification Value (CVV2), an opt-in service that was previously provided free of charge.

4.66 Some of the fee changes with the largest revenue impact among those we analysed were implemented from 2017 to 2018. Visa explained that these fee increases were in part due to the Visa Europe's transition away from a member association to a commercial entity after being acquired by Visa Inc. A further significant fee increase took place in 2020, affecting CP and CNP service fees which had already increased three years prior in 2017.

4.67 In the documents we received Visa does not always make the rationale for fee changes explicit. [✂]. The analysis in this section is therefore largely based on Visa's narrative response, with input from a handful of internal documents. Based on our interpretation of the documents and on Visa's narrative response, we have grouped the rationales that emerge into ten categories. In Figure 8 below, the length of each bar corresponds to the combined revenue impact of the fee changes from our selection that fall into each category.[27] Figure 9 shows the number of fee changes to which each of these rationales apply. As fee changes can have more than one rationale, the same fee change, and the associated revenue impact, can be included under multiple rationales.

26 [✂]

27 In some cases, a single fee change may include several components, and we identified a specific rationale only for one of those components. The revenues in the chart, however, represent the overall impact of fee changes. As such, the chart may show some of the rationales as associated to a larger revenue impact than they would in practice.

4.68 In some cases, our assessment diverges from the rationales Visa identified in its narrative response. This is particularly the case for the rationale that we label 'responding to / accounting for competition'. We have excluded from this category several services for which Visa mentioned 'competitive offering' as a motive for fee changes. We discuss the reason for this in paragraphs 4.71 to 4.74.

Figure 8: Revenue impact of selected fee changes by rationale (£m)

[✂]

Figure 9: Number of selected fee changes by rationale

[✂]

4.69 The ten rationales are described in more detail below:

1. **Simplifying the fee structure:** We identified this rationale in relation to all changes to mandatory scheme fees and core processing fees. These changes have typically been designed to remove tiering of fees or to apply the same fee level to types of transactions previously charged at different rates to different clients. We accept that this can be helpful to customers – something confirmed by one acquirer, which told us that Visa's replacement of a tiered structure with a flat rate, made the fee simpler to understand and implement, as the tiered rate had varied each month. This rationale applies to the structure of a fee, rather than to its level.
2. **Alignment with other global Visa Inc. regions:** We identified this rationale in relation to several fee changes, including the fee changes implemented in 2017 to 2018 and also some of the later fee changes, such as the introduction of a fee on 3DS in 2019.
3. **Transition to commercial entity:** We identified this rationale in relation to the changes to mandatory scheme fees and core processing fees implemented in 2017 and 2018, which followed the acquisition of Visa Europe by Visa Inc.[28]
4. **Avoiding arbitrage:** We identified this rationale in relation to changes to mandatory fees that harmonised the fee structure, eliminating incentives for customers to 'mis-report' the nature of transactions to take advantage of a lower fee.
5. **Reflecting value of the service:** We identified this rationale in relation to the four changes involving the introduction of an optional service; in these cases, the fee is set at a level considered consistent with the value of the service. The same rationale is also mentioned in documents relating to the change to core processing fees, which aimed at charging for different processing services (authorisation, clearing and settlement) according to the value customers received. The documents often include a qualitative description of how customers benefit from a service, but only in one case do they include an estimate of the value customers receive.
6. **Creating a level-playing field:** We identified this rationale in relation to changes that replaced tiered fees with flat fees. This removed a potential competitive advantage previously given to larger acquirers. The rationale only applies to the structure of a fee, rather than to its level.

28 [✂] In its narrative response, Visa also mentions this as one of the rationales for a further change to mandatory acquirer fees in 2020. However, given the time passed since the acquisition of Visa Europe, this appears less directly relevant.

7. **Responding to customer need / creating value:** We typically identified this rationale in relation to the introduction of new optional services, although the documents do not explain how Visa assessed customer need. The rationale also appears in relation to the elimination of a behavioural fee previously charged to issuers, who had provided feedback that they had little control over the drivers of that fee.
8. **Incentivising transition to a new product:** We identified this rationale in relation to one fee change in our selection, the introduction of a fee on 3D Secure in 2019. [✂].
9. **Encouraging change of behaviour:** We identified it as the main rationale in relation to the behavioural fees in our selection. Visa explained to us that these fees are aimed at encouraging behaviours that improve security and system integrity, and are expected to improve the efficiency of the overall ecosystem. It is also mentioned (among other rationales) in relation to one opt-in service, Cardholder Verification Value (CVV2), for which a fee was introduced only when the service is used in the absence of tokenisation or 3DS. One of the stated purposes was to *'help to drive Acquirer behavior towards use of tokenized PANs and 3DS*'.
10. **Responding to / accounting for competition:** Competition [✂] are explicitly mentioned in documents relating to several of the fee changes in our selection. A more detailed analysis of these instances is developed in paragraphs 4.70 to 4.76.

We supply a full list of Visa fee changes with rationales including 'value' or 'competition' at Annex 1, Table 5.

Competition

4.70 Internal documents relating to several of the fee changes mention competition [✂]. The nature of competition and the identity of the relevant competitors vary across different types of fees.

4.71 Commenting on changes to mandatory fees charged on acquirers included in our selection, Visa's narrative response explains '*decisions on pricing are taken in the context of the competitive environment within which we operate. We understand that merchants have a range of options available to them to complete transactions. Many merchants can and will opt for alternative payment methods if they prefer the alternatives compared with card transactions.*' It appears clear from the cases we analysed that this constraint has not prevented Visa from making substantial increases to mandatory fees.[29] It is important to understand what 'competition' means in these contexts.

4.72 [✂]

4.73 [✂]

4.74 When classifying, in Figures 8 and 9, the fee changes for which Visa's documents mention 'competition', we have not included [✂].

4.75 There is one case among the fee changes we selected where the documents explain a freeze on fee increases with reference to competition from alternative payment methods. Visa introduced the 'Everyday Spend' programme in 2020 alongside the increase in the

29 Given the generality of the statement on the competitive environment, in Figure 7 these fee changes have not been included under the 'responding to / accounting for competition' rationale unless the relevant documents explicitly mention competition as a constraint to Visa's ability to increase the fee.

acquirer service fees discussed above, freezing that increase in the UK and Ireland for transactions where the merchant belonged to certain categories, including grocery stores, service stations, utilities, charities, local commuter transport, tax payments, etc. [✂]. An internal document discussing the introduction of 'Everyday Spend' states that '*the existence of this program ensures that cards are priced competitively vs other forms of payment (e.g. Open Banking).*' In its narrative response, Visa explains that it 'considered that increasing service fees in the UK (and Ireland) could result in a shift in demand for services.' This suggests that the willingness to pay for card services may be lower for these types of merchants. The document states that [✂].

4.76 One last mention of competition appears in relation to the introduction of Visa Instalments. This was a new opt-in product that enables issuers and merchants to offer instalment plans to cardholders at checkout. In this case, the relevant competitors are [✂].

Costs

4.77 The documents Visa submitted generally do not include data on either profit estimates or costs for the scheme or processing services concerned. Even when some cost considerations do appear, they are very generic. For example, in a document discussing the introduction of a fee on 3D Secure, the only considerations are: '*Visa* [✂] *incurs operational cost* [✂]. No indication is provided on the level of these costs. The only exception is a document on Visa Instalments, which indicates [✂].

4.78 Documents discussing changes to processing fees in 2018 state that [✂].

Customer engagement

4.79 The internal documents submitted by Visa do not mention seeking direct input from customers before deciding whether to introduce a fee change.[30] In its narrative response, [✂].

4.80 Customer engagement is therefore typically limited to discussions of fee changes that Visa has already decided. *'Depending on the client and the nature of the fee change, client engagement activities can include discussions regarding fees (or changes to fees) that have been announced but not yet implemented. Such discussions enable Visa to provide clarifications in relation to the fee change and its implementation. Visa aims to provide 6 to 12 months advance notice (and sometimes longer) between the announcement of a fee change and the date it becomes effective to allow clients time to make any relevant preparations. This also allows such conversations to occur, although a standardised process for such engagement does not exist.*' In its narrative response on processing fees, [✂].

4.81 Visa also explained that there are mechanisms through which it can receive and consider customer feedback. For example, in relation to behavioural fees, Visa told us [✂].

30 Of course, the introduction of new optional services must be based on Visa's understanding of customers' demand for the service and on their willingness to pay.

4.82 One case in our selection where customer feedback played a role in a fee change decision was the replacement of the Negative Response Fee (NRF) with the Minimum Approval Rate Integrity Fee for debit transactions (Debit MAR). The NRF was a behavioural fee first introduced in 1995. It was paid on a per-transaction basis by non-US issuers for every 'negative response' received for transactions acquired by a US acquirer. The Debit MAR is also intended to increase issuer approval rates but is levied on issuers depending on their number of eligible Bank Identification Numbers (BINs) that fail to meet the minimum approval rates. In this case, Visa explained that **[✂]**.

5 Emerging thinking

This chapter sets out our emerging thinking on how the two scheme operators approach fee changes, based on the available evidence discussed in the working paper.

This analysis provides only a partial view of the competitive conditions faced by Mastercard and Visa. Nevertheless, we can observe that:

- The increase in revenue expected from fee changes comes mainly from acquirers rather than from issuers. The asymmetry is particularly marked for mandatory services.
- The rationale most commonly mentioned in the documents is 'reflecting the value of the service'. In most cases, however, the documents do not include any quantitative estimate of this value. This lack of specificity is consistent with a lack of engagement with customers.
- Competition does not appear to have been an impediment to implementing material increases in mandatory fees – which comprise the majority of the fee changes we considered.
- The documents typically do not include data on the costs associated with the scheme and processing services affected by fee changes.

Scope of the analysis

5.1 This paper focuses on the analysis of Mastercard and Visa's documents related to the approval of fee changes. Looking at how Mastercard and Visa make these decisions provides useful information on the competitive constraints they are subject to. This is, however, only one specific source of evidence. To make a more complete assessment, we will need to test the results of this analysis against what will emerge from other workstreams. This will be done as part of our Interim Report. The considerations made in this chapter must therefore be seen as our emerging thinking based on the analysis of a specific type of documents.

5.2 The analysis we have performed for this working paper can help us understand how issues such as value, costs or competition informed Mastercard and Visa's decisions. They can also reveal the central considerations for a specific decision. For example, if a document refers at length to the value provided by a service but does not mention its cost, we can conclude that value considerations were deemed the more important factor when deciding the new level of the fee.

5.3 There are, however, some limitations to our analysis. We focused on documents prepared for final decision-makers. However, the process leading to the implementation of a fee change is typically more complex, involving several teams within Mastercard or Visa, as explained in paragraphs 3.17 to 3.19 and 3.22 to 3.26. [✂]. This means that the absence of references to a particular issue in the documents does not necessarily imply that it was ignored in the decision to implement a fee change.

Optionality and impact on acquirers and issuers

5.4 There is a clear prevalence of mandatory fees in the selection we analysed. The changes with the largest impact on non-mandatory fees are those related to authentication services and behavioural fees aimed at promoting the adoption of tokenisation or 3D Secure.

5.5 The changes to mandatory fees included in our selection often have a UK or UKI-specific component, especially in relation to domestic and/or CP transactions. Changes to optional fees, meanwhile, tend to be applied uniformly across Europe, as optional services are typically introduced at the European or global level and priced consistently across the region.

5.6 The increase in revenue expected from the fee changes in our selection comes mainly from acquirers rather than from issuers. The asymmetry was particularly marked for mandatory services.

5.7 We examined the decisions on whether a given service should be mandatory, opt-out or opt-in. Mandatory services are typically central to the working of the scheme or are characterised by significant network effects – that is, their adoption benefits not only the customer using them, but the ecosystem as a whole. New services were typically made opt-out to avoid disruption to customers who were using the legacy services they replaced or versions of the services previously offered free of charge.[31] Several customers of various size had decided to opt out of these services.

Rationales for fee changes – value, competition, costs

5.8 At the beginning of the period we considered, Visa Europe was transitioning away from a member association and towards a commercial model, after being acquired by Visa Inc. Some fee changes in 2017 and 2018 were implemented partly to align Visa Europe more towards the pricing practices that Visa Inc. had adopted in other regions. The result was a significant increase in acquirer-side mandatory fees. Mastercard did not undergo any comparable changes in the period.

5.9 Other than this, the rationales that Mastercard and Visa mentioned in their responses or that we deduced from their documents are similar. Three of them are particularly relevant to our analysis:

- Reflecting value of the service
- Responding to customer need / creating value
- Responding to / accounting for competition

Value

5.10 One of the most common rationales for fee changes in the documents is that they reflect the value of the service. This is the case for 22 of the changes included in our selection across both Mastercard and Visa. It is particularly true for fee changes associated with

31 In one case, the reason for making a service opt-out was that it was under-utilised. However, it is not clear why under-utilisation of a service, in the absence of externalities, would be a valid reason to make the service opt-out.

a specific service, as opposed to fees for participation in the scheme. In most cases, however, the documents do not include any quantitative estimate of this value. There were only four instances of a more formal assessment which informed the level or the structure of a fee.

5.11 The lack of specificity on the value of services is consistent with a lack of engagement with customers. Both Mastercard and Visa engaged with customers primarily after approving a fee, rather than as part of the work that leads to a fee change proposal. Acquirers who responded to our information request consistently made this point.[32] However, when introducing optional new services, Mastercard and Visa need to have some understanding of demand and of customers' willingness to pay, likely as a result of their regular interaction with them. One customer told us that, particularly in relation to new products or services, there are occasions when Mastercard and/or Visa will seek input from the ecosystem.

5.12 The documents rarely mention 'creating value' as an explicit aim for a new fee, except when discussing new optional services. However, this does not necessarily mean that there was no aim of providing more valuable services to customers. An issuer told us that scheme fees are just one of the revenue streams which allow Mastercard and Visa to re-invest and improve the service for customers: '*it is uncommon and potentially misleading for a scheme to announce specific service improvements on the back of individual fee changes*.' Another issuer noted that general increases to scheme and processing fees are typically accompanied by broad statements that such changes are necessary for continued investment into innovation, security or network resilience. Some of the documents we reviewed explicitly mentioned the need to generate revenue for investments as one of the aims of a fee increase.

5.13 It may also sometimes be difficult to distinguish between 'creating value' and 'reflecting value', which is a more commonly expressed rationale for fee changes. An acquirer told us that the card schemes typically '*offer services first free of charge to allow for the market to adapt. At a later point in time, the payment networks introduce pricing and require payment for those service. Therefore, the scheme-level innovations at the time of the fee introductions are less relevant as the services are already adapted, accepted, and needed in the market*.' The acquirer added that such scheme-level innovative services often enhance the quality and security of payments.

Competition

5.14 The documents reviewed often mention competition for issuers, acquirers or merchants, or simply the need for a fee to be 'competitive.' Competition does not appear to have been an impediment to implementing material increases to mandatory fees – which comprised the majority of the fee changes we considered. Fee changes where competition was a more immediate factor can broadly be grouped into three categories:

- Decisions involving the introduction of, or changes to, value added services (for example, instalment solutions, dispute resolution services, loyalty schemes), where competition is typically with third-party providers of similar services.

32 Some acquirers stated that, even when feedback is provided by acquirers after the announcement of a fee change, it does not lead to changes in the fee, but at most in temporary waivers.

- One case related to the introduction of an optional service to issuers, which contributes to the scheme's overall competitiveness in attracting issuers.
- Mastercard's 2017 rebalancing of processing fees in preparation for the separation between the scheme and processing sides of the businesses in 2017. [✂] We note [✂].

5.15 Documents from Mastercard also provide evidence that: [✂].

Costs

5.16 The documents do not typically include data on the costs associated with the scheme and processing services affected by fee changes, except for the introduction of new optional services. This, however, does not necessarily mean that covering costs is not an important factor in fee increases. For businesses mainly characterised by fixed costs, often common to multiple services, it may be superfluous to analyse costs explicitly when approving incremental fee changes.

5.17 The documents suggest a high profitability target for new optional services, with expected gross margins between [✂] and [✂]%, [✂]. These figures, however, represent ex-ante expected profits and should be interpreted with caution. First, ex-ante revenue must account for the possibility of failure. As one example among the fee changes in our selection shows, failure is a real possibility (see paragraph 4.38). Second, it is not uncommon in commercial organisations for management to be over-optimistic when estimating the expected profitability of new projects.[33]

33 These two factors are typically reflected in hurdle rates – i.e. the minimum rate of return required for a company to move forward on a project – being set significantly higher than a company's cost of capital.

6 Next steps

6.1 We welcome any comments on this working paper. Below are some questions we believe are particularly important.

6.2 You can provide your comments in writing until **5pm on 11 August 2023**.

6.3 Views and evidence gathered from comments to this working paper will inform the interim report of our scheme and processing fees market review.

Questions

6.4 The analysis developed in this working paper is based on Mastercard and Visa's documents. Mastercard and Visa are therefore best placed to comment on our current interpretation of the documents and information they provided. We welcome any comments from both companies on the contents of this working paper, and in particular on the following questions:

Question 1: Do you agree with the way we describe the different rationales for the fee changes in our selection?

Question 2: Do you agree with our description of the degree to which competition influenced the decisions to introduce these fee changes?

6.5 We also invite comments from other stakeholders. You are welcome to provide whatever comments you see fit, but it will be most helpful if you can focus in particular on the following questions:

Question 3: Do the fee changes considered in our analysis include the most significant changes introduced in the period 2017 to 2021? Are there other fee changes introduced during the period that you think we should have considered? If so, please demonstrate how these changes impacted you.

Question 4: Do you have any views on our classification of fees as mandatory, optional or behavioural, as shown in Tables 1 and 4 in Annex 1? Are there fees indicated as optional in those tables that you consider cannot be avoided?

Question 5: Do you consider that the fee levels are commensurate with the value provided by those services?

How to provide comments

6.6 Please send your comments by **5pm on 11 August 2023**. You can email them to cardfees@psr.org.uk or write to us at the following address:

Scheme and processing fees market review team
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

Disclosure of information

6.7 Generally, we will seek to publish views or submissions in full or in part. This reflects our duty to have regard to our regulatory principles, which include those in relation to:

- publication in appropriate cases
- exercising our functions as transparently as possible

6.8 We will not accept blanket claims of confidentiality. If you wish to claim confidentiality over specific items in your submission, you must identify those specific items which you claim to be confidential, and explain the basis on which confidentiality is sought. If you include extensive tracts of confidential information in your submissions, we will ask you to submit non-confidential versions.

6.9 We may nonetheless be required to disclose information marked as confidential in order to meet legal obligations.

6.10 This would be the case, for example, if we were asked to disclose confidential information under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request under the Freedom of Information Act 2000. Any decision we make not to disclose information can be reviewed by the Information Commissioner and the Information Rights Tribunal.

6.11 In accordance with the legal framework in the Financial Services (Banking Reform) Act 2013 (FSBRA), we will not disclose confidential information that relates to the business or affairs of any person that we receive for the purposes of our functions under FSBRA, unless:

- we have the consent of the person who provided the information and, if different, the person to whom it relates, or
- there is a ‘gateway’ permitting such disclosure. One of the gateways is the ‘self-help’ gateway whereby the PSR will be able to disclose confidential information to third parties to enable or help the PSR to perform its public functions. Where we disclose confidential information to a third party, we may impose restrictions on the further disclosure or use of the information by such parties

6.12 You should note that information that is already lawfully publicly available or in such a form that it is not possible to ascertain from it information relating to a particular person (for example, if it is summarised, anonymised or aggregated) is not confidential information for the purposes of FSBRA.

6.13 We take our data protection responsibilities seriously and will process any personal data that you provide to us in accordance with the Data Protection Act 2018, the General Data Protection Regulation and our PSR Data Privacy Notice. For more information on how and why we process your personal data, and your rights in respect of the personal data that you provide to us, please see our privacy policy on our website, available here: www.psr.org.uk/privacy-notice.

Annex 1
Fee changes selected for the analysis

Mastercard fee changes

1.1 Table 1 below lists Mastercard's fee changes selected for our analysis. It shows the year in which each was carried out, whether they affected scheme or processing fees, and whether the fee was mandatory, opt-out, opt-in, or behavioural.

1.2 Table 2 provides information on some of the rationales for these fees, as they appear in Mastercard's documents and narrative response. In particular, the table indicates fee changes for which the rationales were 'reflecting the value of the services', 'creating value for customers', or 'responding to or accounting for competition.'

1.3 Table 3 provides a short description of these fee changes.

1.4 There is no unique way of identifying individual fee changes. Some change 'events' include several different changes decided and implemented at the same time. Some changes also affect several related fees. We have distinguished fee changes belonging to the same change 'event' if they affect unrelated fees, but we have listed changes to multiple related fees as a single change.

Table 1: Year of implementation and optionality of Mastercard selected fee changes

Fee change	Year of implementation	Scheme / processing	Optionality[34]
Operational Reports – 2016 Pricing Recommendation	2016	scheme	opt-in
Mastercard Instalment Payment Services	2016	scheme	opt-in
Mastercard Dispute Resolution – Claims Manager	2017	scheme	opt-in
Switch Pricing Strategy & Pricing Proposal	2017	scheme and processing	mandatory
Activating Scheme Fees on Credits / Returns in Europe	2018	scheme	mandatory
Introducing Card Not Present pricing in Europe	2018	scheme	mandatory
Revised Authentication Pricing	2018	scheme	opt-in
Accountholder Authentication Value (AAV) pricing	2019	scheme	opt-in

34 The classification is based on our assessment and partly diverges from the one submitted by Mastercard.

Fee change	Year of implementation	Scheme / processing	Optionality[34]
Introducing a new Acquiring Dynamic Currency Matching Fee (DCMF) and decreasing Multi-Currency Settlement Fee (MCSF)	2019	scheme	opt-in
Non-EMV non-contactless fee	2019	scheme	behavioural
Accountholder Authentication Value (AAV) validation fee change and opt-out introduction	2019	scheme	opt-out
Mastercard Working Capital Control	2019	scheme	opt-in
Pilot Pricing for New Mastercard Linked Payment Loyalty Platform	2019	scheme	opt-in
Transaction Investigator and Portfolio Analytics	2019	processing	opt-out
MOTO drivers revision	2020	scheme	mandatory
3DS1-only fees	2020	scheme	opt-in
Mastercom Claim Manager pricing – full activation	2020	scheme	opt-in
Safetynet enhancement	2020	scheme	mandatory
Operational Reports 2019 Pricing Action	2020	scheme	opt-in
Acquirer authentication exemption	2021	processing	opt-in
Mastercom Acquirer Collaboration	2021	scheme	opt-in[35]
AI Account Intelligence	2021	scheme	opt-out
Acquiring Volume Fee revision and Minimum Volume Fee Elimination	2021	scheme	mandatory
Mastercard Cyber Secure	2021	scheme	mandatory
New Connectivity Fee	2023	processing	mandatory

Table 2: Mastercard fee changes whose rationales include 'value' or 'competition'

[✂]

Table 3: Description of Mastercard fee changes and associated services

Fee change	Description
Operational Reports – 2016 Pricing Recommendation	Revised the pricing of reports offered to acquirers and issuers
Mastercard Instalment Payment Services	Introduced a new product for merchants, issuers and acquirers, providing a suite of options for allowing cardholders to pay in instalments
Mastercard Dispute Resolution – Claims Manager	Fee change associated with enhancements made to the Mastercom product, which allows to manage chargebacks and is offered to acquirers and issuers

35 An issuer-side component of the fee is mandatory.

Fee change	Description
Switch Pricing Strategy & Pricing Proposal	Revised the pricing of most of Mastercard's major mandatory fees for issuers and acquirers (see Box 1 in the main paper)
Activating Scheme Fees on Credits / Returns in Europe	Extended scheme fees to credit transactions, which that place, for example, in case of cancellations of purchased goods or services
Introducing Card Not Present pricing in Europe	Introduced a specific fee on the acquirer and the issuer side charged for card-not-present (CNP) transactions
Revised Authentication Pricing	Revised the pricing of the Mastercard identity check program, a service offered to issuers and acquirers for authentication of consumers in CNP transactions
Accountholder Authentication Value (AAV) pricing	Changed pricing for authentication solutions for issuers, performing a check on the token created by the acquirer through Strong Customer Authentication (SCA)
Introducing a new Acquiring Dynamic Currency Matching Fee (DCMF) and decreasing Multi-Currency Settlement Fee (MCSF)	Changed pricing on currency settlement options for acquirers
Non-EMV non-contactless fee	Introduced a fee on transactions originating from POS (and ATM) terminals that do not comply with EMV Contact and Contactless Chip standards
Accountholder Authentication Value (AAV) validation fee change and opt-out introduction	Converted Mastercard's AAV solution from an opt-in to an out-out service
Mastercard Working Capital Control	Introduced a new business-to-business product to issuers allowing buyers to make payments using a commercial Mastercard card while ensuring that payments go directly into the suppliers' bank accounts
Pilot Pricing for New Mastercard Linked Payment Loyalty Platform	Introduced a new loyalty service for issuers and merchants allowing cardholders to use their payment cards to collect and use merchant-funded loyalty points
Transaction Investigator and Portfolio Analytics	Introduced two new services for acquirers. Transaction Investigator is a web-based tool using secure data to research, and assist in resolving, disputes arising from credit and debit fraud. Portfolio Analytics is a service that provides acquirers with access to insights extracted from Mastercard transaction data
MOTO drivers revision	Extended the MOTO fee on acquirers to transactions in which the cardholder location is reported as 'unspecified' or 'unknown'
3DS1-only fees	Aligned the fee on the legacy 3D Secure 1.0 product with that on the newer identity check service (see 'Revised Authentication Pricing' above)
Mastercom Claim Manager pricing – full activation	Aligned the fee on the legacy Mastercom platform with that on the improved 'Claims Manager' service
Safetynet enhancement	Fee change associated with an enhancement to a service allowing issuers to monitor the transactional traffic of Mastercard's network and avoid large-scale fraud events

Fee change	Description
Operational Reports 2019 Pricing Action	Revised the pricing of reports offered to acquirers and issuers
Acquirer authentication exemption	Introduced a new service allowing acquirers to request an SCA exemption by informing the issuer through use of an 'acquirer exemption indicator'
Mastercom Acquirer Collaboration	Fee change associated with a new functionality to the Mastercom product allowing merchants without a direct connection with issuers to use pre-chargeback collaboration
AI Account Intelligence	Fee change associated with a new service providing issuers with predictive scores to aid in preventing and mitigating fraud and security risks
Acquiring Volume Fee revision and Minimum Volume Fee Elimination	Revised the mandatory volume fee for acquirers.
Mastercard Cyber Secure	Fee change associated with an enhancement allowing issuers and acquirers to review, detect and act on cyber vulnerabilities
New Connectivity Fee	Replaced File Transmission, Connectivity and Back-Up Connectivity fees with a byte-based data usage fee

Visa fee changes

1.5 Table 4 below lists Visa's fee changes selected for our analysis. It shows the year in which each was carried out, whether they affected scheme or processing fees, and whether the fee was mandatory, opt-out, opt-in, or behavioural.

1.6 Table 5 provides information on some of the rationales for these fees, as they appear in Visa's documents and narrative response. In particular, the table indicates fee changes for which the rationales were 'reflecting the value of the services', 'creating value for customers', or 'responding to or accounting for competition.'

1.7 Table 6 provides a short description of these fee changes.

Table 4: Year of implementation and optionality of Visa selected fee changes

Fee change	Year of implementation	Scheme / processing	Optionality
Alignment of International Acquiring Fees	2017	scheme	mandatory
Introducing flat acquiring scheme fees	2017	scheme	mandatory
Alignment of Domestic and Intra CNP	2017	scheme	mandatory
Alignment of International CNP	2017	scheme	mandatory
Alignment of international CNP fees to global price structure	2018-2020	scheme	mandatory
Core Processing Pricing	2018	processing	core processing

Fee change	Year of implementation	Scheme / processing	Optionality
VbV / 3DS Fees and 3D Secure Pricing (Issuer Attempts fee)	2019	scheme	opt-in[36]
Acquirer Service Fee	2020	scheme	mandatory
Everyday Spend	2020-2021	scheme	mandatory
Visa Analytics Platform	2020	scheme	opt-out
System Integrity Fees	2020	scheme	behavioural
Visa Instalments	2020	scheme	opt-in
UK EEA Cross-border Fees	2021	scheme	mandatory
Europe Negative Response Fee Sunset / Debit MAR	2021	scheme	behavioural
New Secure Credential Framework Fee for UK Acquirers	2023	scheme	behavioural
Cardholder Verification Value (CVV2)	2023	scheme	opt-in

Table 5: Visa fee changes whose rationales include 'value' or 'competition'

[✂]

Table 6: Description of Visa fee changes and associated services

Fee change	Description
Alignment of International Acquiring Fees	Increased acquiring fees on international transactions.
Introducing flat acquiring scheme fees	Change to acquiring scheme fees replacing a tiered structure with a flat fee.
Alignment of Domestic and Intra CNP	Increased the Acquirer CNP fee for domestic and intra-regional MOTO transactions.
Alignment of International CNP	Increased the Acquirer CNP fee for international MOTO transactions.
Alignment of international CNP fees to global price structure	Increased the acquiring fees on international transactions over three years.
Core Processing Pricing	Changes to core processing fees for acquirers, replacing a tiered fee on clearing and settlement with a flat fee and introducing an authorisation fee
VbV / 3DS Fees and 3D Secure Pricing (Issuer Attempts fee)	Introduced an acquirer authentication request fee for using the Visa Directory Server in 3D Secure transactions. Introduced a fee to issuers where the issuer's access control server is not available.
Acquirer Service Fee	Increased the acquirer service fees on CP and CNP transactions.

36 While the acquirer-side VbV fee is opt-in, the issuer-side Issuer Attempts fee is behavioural.

Fee change	Description
Everyday Spend	Programme freezing the increase of the acquirer service fee [✂], for transactions under merchant category codes associated with non-discretionary 'everyday' spend.
Visa Analytics Platform	Introduced a self-service, web-based analytics product, providing issuers, co-brand merchants and acquirers with payments data and insights on customers' behaviours and needs.
System Integrity Fees	Introduced fees for a suite of new behavioural rules designed to improve the security, performance and integrity of Visa's payment network
Visa Instalments	Introduced a service enabling issuers and merchants to offer instalment plans to cardholders at checkout
UK EEA Cross-border Fees	Introduced new fees for acquirers and issuers on transactions between the UK and the EEA.
Europe Negative Response Fee Sunset / Debit MAR	Replaced a behavioural fee on issuers with a different fee to incentivise increased issuer approval rates
New Secure Credential Framework Fee for UK Acquirers	Introduced a fee for acquirers on CNP transactions that are not tokenised or authenticated using 3D Secure
Cardholder Verification Value (CVV2)	Introduced a fee charged for acquirers on CNP transactions for which CVV2 is used (except when used with successfully passed 3D Secure or tokenisation)

Glossary

Concept	Definition
Behavioural fees	Fees that a card scheme operator charges to disincentivise specific behaviours from acquirers, issuers or merchants, or to incentivise them to adopt specific technical solutions.
Mandatory fees	Fees on services that an acquirer or an issuer has to buy from a card scheme operator as a condition of participation in a card payment system.
Optional fees	Fees on services than an acquirer, issuer or merchant do not have to buy as a condition of participation in a card payment system. This includes services that an acquirer or issuer can source from alternative suppliers, and those that can only be sourced from the card scheme operators but that an acquirer or issuer can choose not to buy.
Opt-in fees	*Optional fees* on services that an acquirer, issuer or merchant does not receive unless they actively choose to do so.
Opt-out fees	*Optional fees* on services that an acquirer, issuer or merchant is automatically signed up to unless they actively choose to decline the service.
Processing fees	Fees on services required for the handling of a payment instruction between the acquirer and the issuer. These services include three core activities – authorisation, clearing and settlement. There can be additional value-added services, such as in the area of reporting and information. Processing services are sometimes also referred to as 'network processing', 'interbank processing' or 'switching'.
Scheme fees	Fees paid for services relating to participation in a card payment system, excluding processing fees.

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