Payment Systems Regulator

Card-acquiring market review

Stakeholder submissions to consultation CP22/3

October 2022

Contents

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

Adyen

REDACTED VERSION
(NON-CONFIDENTIAL)

Payment Systems Regulator
12 Endeavour Square
London E20 1JN

Attn: Card-acquiring market review team
Email: cards@psr.org.uk

Amsterdam, 8 August 2022

Subject: PSR provisional decision of the card-acquiring market remedies

In response to the provisional decision of the card-acquiring market remedies dated June 2022 (**Provisional Decision**), and after having considered the Final Market Review Report dated November 2021, the Remedies Consultation into the supply of card-acquiring services dated January 2022, and having taken part in the roundtable discussion on on 2 July 2022 (**Roundtable**), Adyen N.V. (**Adyen**) would like to provide the following feedback for your consideration.

A. General Comments

I. Provisional Decision versus General Direction

Adyen is of the view that PSR has not provided sufficient or substantial reasoning and justification on the following:

- Criteria upon which the Provisional Decision is legally allowed to be directed to only fourteen (14) providers of card-acquiring services of the UK market (**UK Providers**), rather than to the market as a whole;
- How the identified UK Providers have been assessed as:
  - The most significant UK card-acquiring service providers to merchants with annual card turnover up to £50 million - for the related proposed remedies; and
  - The most significant UK POS terminal lease providers to merchants with an annual card turnover up to £10 million - for the proposed remedy related to POS terminals;
- How the UK Providers are accounted for by PSR as servicing around 95% of retailer transactions in the UK - in the context of each of the relevant remedies.

Adyen would like to emphasize the necessity of publishing all data supporting the above, in accordance with the principles of transparency, open government, and democratic accountability.
This would -from Adyen' perspective- be a requirement to support PRS's conclusion and claims that a general direction (to the whole market) is not necessary, and that the Provisional Decision is (i) sufficient to ensure that the competitive benefits of the proposed remedies may be realized, and hence (ii) effective and proportionate to address the features of PSR's concern. Without such information, Adyen (as well as any other UK Provider in this position) is unable to assess the proportionality and legality of PSR's Provisional Decision.

In addition to the concerns raised regarding proportionality and legality, Adyen would also like to address various considerations regarding the content of the Provisional Decision.

As already expressed by several participants in the Roundtable, Adyen is also concerned that the Provisional Decision could result in or accommodate unfair competition and bad market practices, promoting more complex setups to provide card-acquiring services. It is generally observed that the remedies are not directed to providers other than the fourteen (14) UK providers and PSR does not consider other important market players [redacted] or new market entrants, who will have an unfair advantage within/entering the UK market.

Adyen notes that this might be perceived as not consistent with PSR's statutory objectives and in particular PSR's purpose to (i) *'ensure that payment systems are operated and developed in a way that considers and promotes the* *interests of **all the businesses** and consumers that use them'*; and (ii) *'to promote **effective competition** in the markets for payment systems and services - **between** operators, **PSPs** and infrastructure providers'* equally.

From this perspective, Adyen strongly doubts how the Provisional Decision will promote fair and effective competition, and how it will consistently protect merchants that consume card-acquiring services by card-acquirers not listed among the fourteen (14) UK Providers.
Thus, while acknowledging PSR's powers, Adyen challenges whether these have been exercised taking regard to Section 62(2)(a) (Duty to consider exercise of powers under the Competition Act 1998) of the Financial Services (Banking Reform) Act 2013. Having noted that, Adyen will comply with PSR's final decision to the extent this does not contradict with its lawful rights and obligations. Taking the above into consideration, Adyen would like to invite PSR to extend its mandates through a general direction.

II. Implementation period

Adyen is also skeptical with regards to the Remedies' implementation timelines, which is expected to be no later than three months after the final directions are given. Adyen acknowledges that PSR has already communicated the draft directions. However, given that currently the proposed directions are only draft and still being assessed (and potentially challenged) by the affected UK Providers, Adyen considers that the PSR cannot reasonably expect UK Providers to make the costs and development efforts of starting implementing those directions prior to these becoming final and effective. In each case, a period of three months after the final direction will be insufficient and disproportionate with the implementation costs, as these are predicted by PSR. The directions involve significant front-end and back-end development effort outside the own development roadmap of the UK Providers, and in case these are rushed, there is a substantial risk of inconsistent implementation between providers that would reduce transparency for merchants. For the avoidance of incorrect implementation and/or non-compliance and to ensure a reasonable implementation timeline generally, Adyen would like to propose a minimum implementation period of **twelve (12) months** from the moment the final directions are effective.

B. B. Specific Directions

III. Greater pricing transparency - Bespoke Summary boxes and online quotation tools

As previously communicated, similarly to the so called "bespoke summary boxes", Adyen provides clear, transparent, and simple invoices including data that is analogous to that required by the "bespoke summary boxes". Adyen does this to support its merchants making well informed decisions, and enabling them to compare acquiring costs in case they decide to extend a flexible contract or enter into a new one with a different acquirer. Adyen is further publicly transparent to its prospect merchants having incorporated a dedicated pricing section in its website.

In line with this approach, Adyen is in favor of developing the bespoke summary boxes and the online quotation tool. However, the following elements should be taken into consideration and clarified by the PSR in relation to such remedies:

- It is unclear, based on Section 2.13 and Annex 3 (Section 3.3) of the Provisional Decision, how UK Providers should evaluate their merchant customer base with a card turnover up to £50 million, toward whom these measures should be applied.
- In this regard, Adyen would like to request PSR to additionally clarify (i) the reason why only "card" volumes should be considered in this case, (ii) whether the volume should be measured on a legal entity or corporate group basis and (iii) whether for internationally operating merchants the UK market volumes should be isolated.
- Moreover, with reference to the minimum required details of the bespoke summary boxes, Adyen would recommend PSR to make it explicit which costs should be included (additional costs/authorisation fees/one-off fees/monthly fees) and whether the Interchange++ pricing model should be considered (as intended by the Interchange Fee Regulation). It should be safeguarded that the provisional directions in this respect do not interfere with the obligations of the providers to provide information set out in Articles 9 and 12 of the Interchange Fee Regulation.

- In respect of the online quotation tool, Adyen would like to request the PSR to take into consideration in its prescriptive format that providers may offer a blended or an Interchange++ pricing model. Adyen notes in this respect that while the blended model provides greater simplicity, it is also generally more expensive for merchants (and does not provide merchants the benefits following from reductions in interchange or scheme fees). For the Interchange++ model, which passes-through the Interchange Fees and Scheme Fees with a pre-agreed acquiring mark-up, the calculation is more complex and depends on many data points - although it generally provides for better pricing for merchants. For an accurate quote including the applicable Scheme Fees and Interchange Fees, the merchant would be required to provide many data points (including the exact split of card brand, card type and card currency). In light thereof, Adyen requests the PSR to clarify if it envisages that in case of an Interchange++ pricing model, the online quotation tool requests all these detailed data points to be able to provide the estimated Interchange Fees and Scheme Fees, or if the online quotation tool should only provide a quote for the acquiring mark-up.

IV. Greater engagement - Trigger Messages

Adyen wishes to emphasize its continuous engagement with its merchants, also supporting their flexibility through contracting. Although the remedy proposed regarding the trigger messages would have the effect of duly informing merchants that their contracts (and related terms) are due for renewal, it is questionable whether these would serve the purpose of encouraging them to verify alternative market options.

Where the merchant has a contract with a minimum term, the trigger message to be included thirty (30) calendar days before the expiry of the minimum term is reasonable. However, in the Provisional Decision, PSR has not substantiated why such a trigger message, which requires significant UK Providers' development effort, would add proportionately value to the merchants, considering that the contract duration and notice provisions are already part of the agreement and contracting with the merchants.

In relation to the indefinite term contracts, Adyen is concerned that trigger messages on a monthly basis would be potentially considered as unsolicited content by merchants due to their frequency and rather disregarded by them. As highlighted already by PSR itself in relation to the minimum term contracts (Section 2.81), trigger messages provided on such a frequent basis would become too familiar and hence go unnoticed, turning unproportionate and ineffective to address the feature of concern. Moreover, Adyen urges PSR to consider that depending on their phrasing, trigger messages could substantially lead merchants to insecurity in relation to their contractual relationship with the service provider and/or to customer dissatisfaction; as such, they are probable to lead to the opposite result than desired by PSR.

None of the aforementioned measures appears to have been verified as being capable of achieving the proposed goals, as the merchants do not appear to end up being substantially encouraged to verify alternative market options. On the contrary, Adyen assesses these directions will result in merchants remaining contracted with their original service provider. Adyen agrees that the end of the initial term or other triggers (such as re-pricing of products and services and/or additional merchant needs) are relevant topics of discussion and worthy of re-negotiation in relation to potential renewal of the contract (and better pricing options), but instead of mandatory trigger messages, Adyen would rather support the flexibility of the counterparties to engage in such discussions and alternative market options to be provided to merchants at their discretion.

In each case, Adyen does not see how the proposed measure for indefinite term contracts (a trigger message every month) is proportionate versus the measure for a minimum term contract (a single trigger message). This difference, along with the concerns outlined above, seems to encourage UK Providers to push for minimum term contracts (which provide less flexibility to merchants) rather than indefinite term contracts (which provide maximum flexibility to merchants). Adyen does not see how this difference benefits the merchants or aligns with the PSR's goals. If the PSR decides to introduce mandatory trigger messages as one of the measures, then Adyen would encourage a more proportionate approach regardless of the contract term (e.g. yearly trigger messages specifying the merchant's rights and any relevant periods in that respect).

V. Point of Sale (POS) terminal lease and rental contracts

With respect to the POS terminal contractual remedies to be implemented for all merchants, having assessed the Provisional Decision, Adyen would invite PSR to clarify:

- In relation to Section 2.14 and Annex 5 (Section 3.3.c) of the Provisional Decision, how this direction should be applied only in respect of the merchant customers base with a card turnover up to £10 million - and in particular the calculation methodology to determine merchants with a card turnover up to £10 million. The more specific questions in this respect are identical to those raised under III. above;
- In the package of remedies (Sections 2 and 3), whether PSR intends to enforce a maximum contract duration of 18 months in relation to POS terminal lease and rental contracts. The draft specific direction (other than the referred title) seems to have a broader reach, relating to any contract or other arrangement and including the provision of one or more POS terminals. Adyen would appreciate a clear guidance in this regard.

Please do not hesitate to reach out if you have any further queries or wish to discuss our response further.

Kind regards,

____

[redacted]

AIB Merchant Services

AIB Merchant Services
[redacted]

[redacted]
www.aibms.com

11th August 2022

Ref , Payment Service Regulator ,

Card Acquiring Market Review

First Merchant processing Ireland DAC

Dear Sirs/madam

Overview

First Merchant Processing would like to highlight how dynamic the UK market is and the fact that recently there have been several new entrants into the UK market as well as significant development in the terminal and Point of Sale industry.
Whilst we accept a large proportion of merchants will be covered by the Top 14 Supplier list you provided. A significant and growing number of new entrants have entered the UK market in recent years. These new entrants have a significant merchant base and continue to recruit numerous merchants on a monthly basis. These merchants will be outside this regulation and so will be vulnerable to the elements the regulation is trying to protect. The suppliers outside the regulation would be able to operate under the old terms and effectively use low headline rates, which could mis lead merchants resulting in higher fees in which they are locked into for long periods. We strongly feel that the regulation should apply to all parties and given the nature of the regulation, we believe few suppliers would voluntarily sign up to these proposed terms. A number of the missing entities would include [redacted] and most recently [redacted].
In addition to the new entrants, the Point of Sale of Industry also is seeing significant change with purchase options of handheld mPOS devices, integrated solutions where the Pin Entry Device (PED) is part of a Point-of-Sale (POS) solution and the advent of SoftPOS. This is providing a wide range of new options to merchants, which may reduce/complicate the impact of the contract proposals.
The timescales to implement these changes need to be clearly understood as any system change will take time to schedule in, test and fully launch. (We think it is only right to share that these extra costs incurred in developing and maintaining the regulations will be ultimately borne by the merchant.) In view of this we feel due consideration will need to be given to allow a suitable time to develop and implement these changes. We believe 18 months is a reasonable time to ensure they are launched effectively. You have also got to consider that the industry does have significant change freeze periods to include all of the peak periods of Christmas and new year and also around Bi Annual scheme compliance updates .

Bespoke summary information

Merchants will only get headline figures, which could mean they focus on Debit / Credit and pay more for corporate /international and ultimately pay, more overall. It is key that the Merchants understand their mix of cards, what you will see in a Hotel versus a Retail store is very different.
Boxes need to incorporate non-financial benefits as acquirers supply differing solutions at different prices and so a merchant could easily misunderstand the package. The other elements would include Funding Timeframes, Whether Gross or net settlement, Appetite for Risk of their acquirer depending on the vertical the merchants operate in.

Introduction
Generally, First Merchant Processing supports the direction of this proposal enabling merchants to better understand their cost of acquiring.
The concern with the suggested format is that it lends itself to headline rates based on the standard products i.e. debit or credit card pricing. Whilst this would give merchants the ability to compare headline fees it could lead to poorer outcomes as merchants could gain lower credit and debit card fees but pay significantly more for other Card types such as Business Debit, Corporate or international cards.
Merchants are unlikely to analyze their Business Debit, Corporate and international spend unless presented alongside the general

card payment breakdown in order to give them the full summary of their card payments.
The merchant would need to consider other services that may be included in their current package but not be included in a lower priced option. This again could result in the merchant achieving a lower headline rate but a poorer outcome overall. Such services include loyalty/gift card, helpdesk support, next day terminal swop out and DCC services.
Overall, the concern is that whilst the summary box may prompt a merchant to review their package unless they analyse all the fees and charges, they could end up paying lower headline fees but higher overall charges and receive a poorer service.
A general steer could have limited benefit as the merchant may only looks at this summary and so they will not have the full understanding of their overall charges and service and for the same reason they rely on the summary box they will not do the due diligence to ensure all other factors are considered.
A suggestion may be for a summary page rather than a box in which other card fees are incorporated as well as non-financial solutions that may be benefiting their business.

Trigger Messages

First Merchant Processing agrees with a notification to alert the merchant that a contract may be nearing expiry, again the key is in the delivery of the notification.
The merchant is most likely to respond to a short concise statement that gives them clear options. Long wordy paragraphs may cause them to ignore or "deal with later" which may be eventually overlooked. For this reason, we would propose a short mandatory statement with the acquirer able to add their tailored message.
Our suggestion would be:
Contract is due to expire in 30,60,90 days as your incumbent supplier we will be writing to you shortly with a new solution and pricing structure. As the contract will expire, you are free to benchmark us against other competitors. -Mandated statement existing supplier can add….
The new proposition will include details of our latest ecommerce solution enabling you to reach more consumers, the latest payment acceptance terminals which incorporates loyalty solutions as well as Market insights …..enabling you to identify the profile of your consumers and market to them more effectively. If you wish to contact us in the meantime please ring XXXXXXXXXXX

Limited contracts
We also agree with changing or regulating the terminal contract process. The practice of auto enrolling we agree should stop but the actual contract length we feel should be clearly explained but not limited to 18 months.
The terminal market is changing considerably as new devices are available providing lower cost options as well as devices with more capability including apps integration to Point of Sale systems and ancillary services such as loyalty.
The option not to lock merchants into long contracts is agreed but like other markets the ability to reduce the monthly terminal fee for longer commitments should remain an option.
Contract lengths of 18 months and shorter in general will not give sufficient time for the asset and the support services to be recouped. This could drive out competition in this market if ISO's are unable to provide a stable supported product. This is the one part of the industry who has been bringing competition to the market. The reduced contract period could mean increased monthly costs to the merchant with the key aspect here being the fee does not just include the cost of device but the wider support. A concern would be that many short contract options can be offered but the quality of device and service (replacement next day etc). This could lead to a negative experience for the merchant and consumer.
The integrated nature of these solutions also mean that the 18-36 month contracts need to be in place to support the added services incorporated into the Point of Sale package, which ultimately is giving the merchant a better solution and streamlined experience.
Our proposal would be to offer merchants a choice of contract length especially considering terminals are changing and at the smaller turnover part of the market many purchase options will exist for handheld devices.
We would propose that contracts could not be auto enrolled but can vary but up to 36 months as a maximum with the supplier clearly articulating the options 18-36 months available and fees payable for early termination. These shorter contracts may be with different hardware, less support options and less functionality.

Thanks for all the support on this overall project and if there are any questions please reach out to myself or [redacted] .

[redacted]

[redacted]

American Express

[redacted]

American Express: Response to PSR's card acquiring market review – provisional decision

10 August 2022

[redacted]

A. Introduction

American Express welcomes the opportunity to provide comment on the Payment Systems Regulator's (PSR) provisional decision in relation to remedies following the card-acquiring market review (CAMR).

1. *Specific directions in relation to participation in the Visa Europe and Mastercard regulated payment systems*

American Express supports the fair, reasonable and proportionate approach the PSR has taken to tailor its regulatory intervention to where concerns have been raised and intervention will be most effective by:

(i) defining the scope of these specific directions to apply to participation in the Visa Europe and Mastercard regulated payment systems, whose model gives rise to the concerns identified by the PSR, and
(ii) the use of specific directions for 14 designated providers that provide 95% of retailer transactions in the UK instead of an unduly burdensome 'broad brush' general direction.

This is consistent with the PSR's public commitment to be proportionate in its approach to regulation,[1] and its statutory duty under section 49 of the Financial Services (Banking Reform) Act 2013 to exercise its powers in accordance with the regulatory principles, including by recognizing differences in the nature of businesses operated by different providers.[2]

The PSR has been clear from the outset of the card-acquiring market review that the focus of the market review has been on card acquiring for Visa and Mastercard[3]. Ultimately, the PSR's findings and proposed interventions have similarly been driven by concerns regarding card-acquiring services for Visa and Mastercard, including that a lack of price transparency makes it difficult for merchants to understand the full price they are paying and to make a meaningful comparison between card-acquiring service providers.

As the PSR is aware, American Express' model does not give rise to the concerns identified with the dominant four party schemes. American Express operates a closed loop three party card scheme in the UK whereby it is both the issuer and acquirer of transactions. [redacted]

[1] "*we will be proportionate in how we regulate - choosing to use broad standards or precise rules depending on the context*" PSR Policy Statement PS15/1 A new regulatory framework for payment systems in the UK (March 2015)

[2] These principles are set out in s53 FSBRA and include: "the desirability where appropriate of the Payment Systems Regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons subject to requirements"

[3] "*The focus of our market review was card-acquiring services for Mastercard and Visa, and our findings relate to card-acquiring services for these card payment systems.*" Market review into card-acquiring services Final report (Nov 2021). See also: Market review into the supply of card-acquiring services Final terms of reference (Jan 2019).

[redacted]

Adopting a general direction or extending the scope of the directions to smaller competing card schemes would impose unnecessary, unfair and disproportionate regulatory burdens and unintended consequences for smaller competitors whose practices do not give rise to the concerns requiring intervention.

American Express supports the PSR's desire to focus on outcomes and measure the impact of its interventions, and if the PSR considers changing its approach to the use and scope of its proposed specific directions (including through the use of a general direction) either now or in future, we suggest the PSR should engage in further formal consultation with the stakeholders likely to be impacted by such a change.

2. The PSR's proposed remedies

While American Express is not one of the 14 firms given a specific direction to implement the PSR's remedies, we hope that that the following comments drawn from our own experience [redacted] will be constructive. These observations are made in the context of summary boxes that would apply to card acquiring for Visa and Mastercard only and not to three party schemes, such as American Express, who operate a different model including in approach to pricing.

Summary box option 1 and 2

American Express agrees that bespoke summary boxes, based on merchants' own transaction data and spend mix could be helpful for merchants to compare the total price that they are paying for Visa and Mastercard transactions, particularly small ones who do not have time or resources to analyse complex pricing data.

That said, we are concerned that neither of the PSR's proposed formats in options 1 nor 2 will provide merchants a clear understanding of the total price that they are paying for accepting Visa or Mastercard cards with respect to their transaction spend mix. The merchant's experience has to be central to these remedies, and the summary box should provide a simple and meaningful point of like-for-like comparison. It should be something merchants can use to understand their pricing at-a-glance. In our view, merchants will have a better understanding of their pricing information when it is provided in the context of their individual spend mix, which will vary based on factors such as the number of card present vs card not present transactions, international vs domestic cards and so on. Simply providing merchants with long lists of underlying fees, as with Option 2, is unlikely to enable them to compare prices effectively. Given that small merchants typically have limited resources to spend on shopping around for card-acquiring services, additional measures that further overload small merchants with data will not help them make an informed decision.

Of the two options proposed by the PSR, Option 1 comes closer to providing that at-a-glance summary of costs. The following comments refer specifically to Option 1.

[redacted]

PSR Payment Systems Regulator

We are required by the PSR to provide you with this summary box to help you make informed decisions about your card acceptance services. You can use it to compare offers from other providers, some of whom are required by the PSR to provide quotes in a similar format. You can obtain a quote from these providers' websites, using their online quotation tool.

About you

Contract expiry date	28 December 2022		
Your total charges in previous 12 months	£1,155.22	Total card acceptance in previous 12 months	£86,578.25
Your average transaction value	£11.28	Merchant Category Code (MCC)	Other retail

Your costs for accepting common individual card payments[0]

Consumer domestic[1]	Mastercard Debit	Mastercard Credit	VISA Debit	VISA Credit
Card present[2]	0.7%	0.9%	0.7%	0.9%
Card not present[3]	0.9%	1.1%	0.9%	1.1%
Transaction split[4]	10%	15%	45%	10%

\+

Additional charges per transaction	
Authorisation fee	4p

Other potential transaction charges	
Chargeback fee	£24.00
Retrieval fee	£2.00
Any other fees	

Example

If your customer uses a Mastercard consumer debit card in person (in your store) to purchase a £10 item, you would pay: 7p (0.7% of £10.00) + 4p (authorisation fee) = 11p

Some typical monthly charges you may have to pay in addition to transaction costs

POS terminal (per terminal)	£20.00
Gateway[5]	included
Payment Card Industry Data Security Standard (PCI DSS) fee[6]	£5.00
Minimum Monthly Service Charge (MMSC)[7]	£20.00

About your service	
Settlement time	24 hours
Payment brands accepted	VISA Mastercard Amex

0 These card types are the most commonly used cards for most merchants. You may also accept significant numbers of other card types including business cards, corporate cards and international cards which may cost more to accept. You can identify the types of cards you accept in your transaction information.
1 A card issued in the UK to a consumer.
2 A card transaction in which the cardholder is present and presents the card to you.
3 A card transaction that is not a card-present transaction such as e-commerce, mail order and telephone transactions.
4 The proportion of your transactions represented by each card type.
5 A service for capturing and transferring payment data.
6 Charges relating to compliance with a set of standards designed to protect the security of card transactions and reduce fraud.
7 Amount payable if your monthly transaction charges do not meet a minimum agreed amount.

Headline

- For clarity, we think there should be an explicit reference in the headline that this information only relates to Visa and Mastercard transactions.

Your average transaction value

- In addition to presenting the average transaction value, the PSR may want to consider the introduction of a headline merchant effective rate that provides small merchants clear visibility of the overall rate that they are paying (including the cost of any applicable fees and charges). This would present a clear figure for merchants, and one they would be able to compare against other providers and also against the rates displayed for accepting common individual card payments (thereby prompting them to review their charges and spend mix in more detail).

Chargeback Fee

- We note that the chargeback fee is included in the summary box, but it is unclear whether and how often this fee has been applied to the merchant's transaction volume. Merchants may benefit from knowing the total number of chargebacks processed each month.

[redacted]

International cards

- It appears that the prices summarized in the summary box only apply to domestic transactions. Summary boxes should reflect a merchant's individual spend mix and how this impacts the total price that the merchant is paying. As the PSR has itself noted international transactions are an important use of credit and debit cards.[4] For many merchant locations and card not present transactions, the volume of international card transactions could be significant. Excluding international cards from the summary box figures could be misleading for merchants and will be less likely to achieve the PSR's intended outcome of helping merchants understand and effectively compare the pricing available for Visa and Mastercard card acquiring. Given the PSR's ongoing market review into cross-border interchange fees and recent increases in such fees for Visa and Mastercard, it may be appropriate for merchants to have greater transparency over these costs.

Payment Brands Accepted

- American Express welcomes the clear indication that the 14 directed firms do not have to present Amex pricing in the summary box where they work with us in the capacity as a payment facilitator, but that they should indicate where we are an accepted payment brand. It would be helpful for the PSR to make this clear in any guidance issued to the 14 directed firms and we are keen to work with you on the specific guidance prior to this being issued, to ensure this is sufficiently clear.

The PSR has indicated it may consider issuing guidance on summary boxes. American Express supports the provision of such guidance and respectfully requests that the PSR consults with stakeholders as it develops this.

Trigger messages

American Express agrees in principle that the provision of a trigger message to consider switching might improve merchant engagement. How effective such a remedy would be is likely to depend on the nature and content of the trigger message. Merchants are likely to be best placed to comment on the timing for delivery of trigger messages that would be most effective for them. But a monthly prompt is likely to be too frequent and will become background noise. Therefore, we agree a more effective trigger message could come before the annual signing anniversary.

3. Other comments

In view of the short consultation period, we have not commented on other aspects of the PSR's consultation such as the feasibility of implementation periods, merchant thresholds, the ability of providers to ensure the compliance of independent sales organisations, POS terminal contracts or the PSR's draft cost-benefits analysis.

[4] PSR's market review of UK-EEA consumer cross-border interchange fees: an update and draft terms of reference. https://www.psr.org.uk/publications/market-reviews/mr22-2-1-market-review-of-uk-eea-consumer-cross-border-interchange-fees/

Barclays

PSR CARD ACQUIRING MARKET REVIEW

PROVISIONAL REMEDIES DECISION – CONSULTATION PAPER

Introduction

1. Barclaycard Payments is a leading acquirer in the UK and Europe and is a wholly owned business ultimately falling under Barclays PLC. Barclaycard Payments (hereinafter referred to as "Barclays" unless indicated otherwise) provides a range of payments services to SMEs and large corporates.
2. Barclays supports the aims of the proposed remedies decision which when implemented should enable comparability of pricing and offer merchants a more transparent pathway to switch provider, without being deterred by potentially high POS terminal termination fees.
3. In summary, our views are that:
   i. All remedies should apply to all participants - the PSR should address the market-wide failings it believes it has identified with a market-wide solution, rather than specific directions addressed to a group of 14 named providers. General directions are the most transparent way to achieve this goal, on a level playing-field basis, and would avoid potential merchant and provider confusion about the scope and application of the directions. More specifically, paragraph 3.9 of draft specific direction X3, concerning POS terminal contracts, requires the directed PSP to ensure that the provider of the POS terminal complies with the direction. This part of the direction does not recognise that there may well be instances where the PSP does not have a contractual arrangement with the POS terminal provider and will not be able to enforce this requirement under the construct of the specific direction tool.
   ii. The implementation timeline of three months, for each of the remedies, is not achievable in practice. Barclays is of the view that a compliance timeline, applying to each individual remedy, of 12-15 months is more realistic – this to allow for technological changes to be designed, implemented and tested.
   iii. The turnover breakpoint is set at a high level without justification or explanation. It is also inconsistently applied across each of the three remedies. In the interests of certainty, proportionality and to make sure the right merchant segment is targeted, we propose a turnover breakpoint of £10m, for <u>each</u> of the three remedies.
   iv. We need further detail how compliance with the remedies will be monitored, including the frequency/scope of information requests, and any further reporting requirements.
   v. As to the specific remedies:
      a. We support, in principle the on-line pricing tool remedy and the summary box remedies;
      b. We think the contract prompt remedy is workable, although the current construct carries a risk of circumvention; and
      c. We support the 18 month POS terminal contracts remedy, but suggest further clarifications, to address the risk of circumvention and the practice of termination fee buy-outs.

General comments

The PSR should issue general directions across all remedies

4. We strongly encourage the PSR to reconsider whether the specific directions are effective and appropriate, and to whom they are addressed.

5. The draft specific directions:
   i. apply at a fixed point of time to a fixed set of PSPs, based on market information for the period 2014-2018 – this approach neither takes into account new entrants nor changes in market dynamics/growth of existing players.
   ii. treat the 14 directed PSPs, their ISOs and payment facilitators inconsistently. It is not clear to us why the PSR has chosen to make some of the directions apply on the one hand to ISOs but not to payment facilitators (*e.g. summary boxes*) and on the other hand applying to the 14 directed PSPs but not to ISOs nor payment facilitators (*e.g. trigger messages*).

6. In our view all PSPs, their ISOs and their payment facilitators should be bound by all of the directions, regardless of how they access the Visa and Mastercard payments systems.

7. More generally, we think specific directions are neither the right tool to address the market-wide failings the PSR believes it has identified in its Final Report, nor will they capture the intended benefit for all merchants. While we note that the PSR considers that the 14 identified participants account for 95% of retailer transactions, we think the remaining 5% are very likely to be micro enterprises or SMEs, including new entrepreneurs, that are accessing the payments market for the first time. Merchants of this type may be less experienced, and therefore more likely to benefit from the remedies designed to provide merchants with easier to understand information.

8. In Barclays' opinion, general directions are a much better tool to address the market-wide failings the PSR believes it has identified, in a way that offers certainty and predictability to all current/future market participants, as well as merchants of all sizes - and goes towards each of the concerns we have with specific directions. The critical benefit is that general directions create a level playing field, and will align with the central policy purpose that the same activity should be covered by the same regulation.

9. As the PSR already noted in the Roundtable session on 20 July 2022, it has the powers to make general directions under FSBRA that could bind all PSPs involved in all aspects of the value chain – and Barclays strongly urges the PSR to do so.

The implementation timeline must be extended to 12-15 months

10. While Barclays supports all of the proposed remedies in principle, we would strongly advise the PSR to reconsider the current implementation timeline.

11. With reference to the UKF submission, which we support on this point, we underline that an implementation timeframe of 3 months is neither realistic nor achievable.

12. Each of the remedies, and the bespoke summary box and online pricing tool in particular, will require considerable internal resources as well as dedicated time reserved for beta-testing and development. There are multiple and complex processes that require adjustment to ensure that the right merchants receive the right information. Even with an extended timeline it will be challenging to ensure that there are no inadvertent misses. These remedies will not only require

careful consideration from an internal development perspective, but will also need to be rolled out in an appropriate way – so that we can prepare and support our merchant base.

13. In light of this, we consider that an overall implementation timeline, across all remedies, of 12-15 months is a more realistic option.

The turnover breakpoint for all remedies should be £10m

14. The turnover breakpoint is set at the high level of £50m for the trigger and summary box remedies, but without further explanation or obvious justification as to why. We support the £10m limit for the terminal contractual remedy and feel that this same threshold should apply across all three proposed remedies.

15. As we and other industry participants have noted before, we do not believe that the remedies are appropriate for the larger in scope merchants, which are more corporate in nature. These larger corporate merchants have much more complex payment acceptance needs (mapped against bespoke solutions) than smaller merchants do. Smaller merchants will be on much simpler (blended) deals, commensurate with their more standard payment acceptance requirements. A one-size-fits-all suite of remedies that applies equally to larger and smaller merchants therefore runs the risk of not recognising the internal diversity of the merchant base.

16. Barclays considers that applying the remedies on a much more targeted basis resolves these issues; the PSR already recognises that a £10m turnover breakpoint is suitable for the POS terminal remedy. We propose extending this across the remaining two remedies as well.

PSR should provide guidance on compliance monitoring

17. We note that the draft directions make allowance for a compliance monitoring function, as part of which the PSR may request that a PSP report on its compliance with the directions, and/or to provide information on the same point.

18. We note that the directions do not offer details here. Barclays, as a regulated entity, is subject to a large variety of monitoring/reporting obligations from various UK and non-UK regulators – and is well aware of the considerable internal resource planning that compliance with such obligations can require. In light of that, we would urge the PSR to offer further details here (including on the scope, frequency, and form of any compliance reporting) – so that we have a degree of certainty on what the impact of such compliance could be, and what internal resources this may require.

Specific comments on the draft directions

Draft specific direction X1: requiring providers of card acquiring services to provide information to merchants (summary box/online pricing tool)

19. Barclays is supportive of the current PSR strategy, which centres on the use of “dynamic” or “bespoke” pricing displays – such that merchants can make like-for-like comparisons more easily.

20. We do note that the amount of information the merchant will have to input to make such a comparison feasible may limit the effectiveness of the remedy. As noted during the Roundtable session on 20 July, card-acquiring is, as a business-to-business service, inherently more complex than a business-to-consumer service (such as the provision of utilities). The effect of this fundamental difference will be that merchants will in any case need to provide considerably more, and more detailed, information than a consumer would in an analogous situation.

21. As noted in paras. 12-13 above, developing and implementing these tools will require considerable time and resource to be allocated – it will certainly not be possible to do so within 3 months for well governed and regulated institutions, that have to follow PRA / FCA mandated change controls (such as SYSC). While details are to be confirmed, Barclays will, for reference, need to make changes or integrations to our core processing platform, develop the technical aspects of the solution, and, importantly, go through a considerable testing period with our merchants and partners, before we can roll this out.

22. If the PSR needs some industry action at an earlier timeframe, then, by way of <u>interim</u> measure designed to encourage merchants to begin their discovery of how to shop around, the PSR could mandate that a <u>non-dynamic</u> generic box be made available on-line on the provider's website. We emphasise that this should be an interim measure only, that can only start merchants to begin exploring how to shop around, as we do not believe the use of generic summary boxes is an effective solution for the reasons we expressed to you previously on this point.[1]

23. The format could be as set in the PSR's option 1 summary box for a mandated merchant scenario (such as clothing retailer, £750,000 annual card turnover, 25% ecomm, 75% in store, 1 outlet, 1 terminal). This approach will enable the PSR and the industry to demonstrate an immediate response to the harms identified with sufficient time for participants to design, execute and test the more detailed and dynamic requirements for the on-line pricing tool and bespoke summary box.

24. We think placing a pricing example on the website, within one click of the landing page could be achieved quite quickly – and would suggest that a three-month implementation timeline is feasible.

Draft specific direction X2: requiring providers of card-acquiring services to provide prompts to merchants

25. Barclays supports this remedy in principle. However, we think the wording does need to be more accessible and user friendly for merchants – and consider that an (informal) workshop might be the best way to come to a consensus on this.

26. Wording aside, we consider that providers should have flexibility on the *placement* of the trigger message, on the statements that are sent out to merchants. For our merchants, these statements already contain a host of information. Were the PSR to mandate placement of the trigger wording in a specific location on that statement, then that could require a full review of the layout of our merchant statements – we suspect that other providers would be in the same position. In light of this, we consider that it would make sense to grant providers a degree of flexibility on this point.

27. While we are supportive of this remedy in principle, subject to the comments made in para 25 and 26 above, we highlight that there could be scope for circumvention to the directions as drafted, and that the PSR should guard against this in the final version[redacted] This could mean that the obligation to "prompt" the merchant in question may not arise for many years – which seems to go against the purpose and spirit of the draft directions.

28. Further, we query whether a prompt that appears every month for rolling contracts [redacted] will have the desired "triggering" effect – merchants that receive the same prompt, every month, may

[1] Please see our response to Question 2 of the Remedies Consultation, submitted on 6 April 2022.

become de-sensitised to its content. In addition, note that for all acquirers that operate on the basis of a "rolling contract" model, this would mean that a merchant would receive a prompt to consider switching from the very first month they signed those services – which could deliver a potentially confusing message.

29. While we agree with the substance of this remedy, we suggest that an obligation to issue a prompt to merchants be required on a biannual or annual basis (e.g. on each anniversary of a contract), regardless of the period or type of contract.

Draft specific direction X3: limiting the length of initial terms for point-of-sale terminal contracts

30. We are pleased that the PSR has recognised that the proposed interoperability remedy is not practically feasible. We think that high termination fees are a significant harm that needs to be addressed and we encourage the PSR to maintain its course.

31. Capping the length of terminal leases will be an effective remedy to ensure that merchants are not deprived of their rights under the Payments Services Regulations to terminate regulated acquiring contracts on short notice. That said we think there are some circumvention risks that should be addressed:

    i. The start date should be the date of the direction, so as to avoid firms entering into long term contracts ahead of the implementation date.

    ii. The direction should be clearer that termination fees may not be levied after 18 months and that any buy out paid by a PSP of a former PSP's termination fee cannot be recovered from the merchant after 18 months. Fees for collection or return of equipment should be reasonable and cost based and should not cover software re-injection

    iii. Paragraph 3.9 of the underlying draft direction requires the directed PSP to ensure that the provider of the POS terminal complies with the direction. This part of the direction does not recognise that there may well be instances where PSP does not have a contractual arrangement with the POS terminal provider and will not be able to enforce this requirement under the construct of the specific direction tool.

<u>**Conclusion**</u>

32. We have set out views supporting the remedies, but have offered suggestions on how and when they may be implemented. The critical items are the time required to develop technological solutions and the scope of the specific directions limited to 14 providers – all of the remedies should apply to all participants.

33. We look forward to continued engagement with the PSR on this important consultation process.

Blink

blink

14/07/2022

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

Yours faithfully

[redacted]

For & on behalf of Blink Payment

[redacted]
blinkpayment.co.uk

Booksellers Association

Dear Consultation Team,

This submission is being made on behalf of the Booksellers Association, the membership organisation for booksellers in the UK, from small independent businesses to large chains gracing high streets across the country. As of June 2022, the BA has 869 business members, with 3,882 outlets, including 905 independent bookshops. Together our members directly employ over 24,000 people and contribute hugely to their local communities. As with any modern retail sector, card services are an essential and increasingly important part of doing business, so we welcome the opportunity to contribute to this consultation. It is important, especially on the high street where the overall burden on business costs is considerable (and where for our members who operate with slim/ tight margins), that card fees are fair and truly competitive.

- We are supportive of the package of remedies identified in this consultation document – they seem a sensible starting point for addressing the defects identified in the operation of these markets. Specifically (section 1.12 in your consultation document and 1.22);

    1. Summary boxes containing bespoke key price and non-price information to be sent individually to each merchant and made available in their online account. Merchants will be able to use these alongside new online quotation tools which providers will be required to make available. This will help merchants compare all available offerings.

    2. Trigger messages to prompt merchants to shop around and/or switch, to be sent by providers of card-acquiring services to their merchant customers and shown prominently in their online account. The timing of these messages will be linked to minimum contract term expiry dates or, where contracts are indefinite, be required to be provided at least once every 30 working days.

    3. A maximum duration of 18 months for POS terminal lease and rental contracts, and maximum one month notice after any renewal. In particular (but not the exclusion of the other remedies), we were in particular supportive of the proposal to ensure that **Summary boxes** containing bespoke key price and non-price information to be sent individually to each merchant and shown prominently in their online account which can be used alongside new online quotation tools to help merchants compare prices and other service features more efficiently.

It would though be helpful to have an indication of the proposed timings for the implementation of these changes. Too lengthy periods (of implementation) given the defects identified by the PSR, risk prolonging the defects and harms of the current status quo. We look forward to seeing how this work progresses.

Thanks in anticipation, [redacted]

[redacted]
Head of Policy and Public Affairs (Acting)

Breathe Payments

To: Payment Services Regulator

Re: Card-acquiring market remedies. Provisional decision June 2022

Dear Sirs,

We wish to register our objection to these proposed measures. It clearly favours bigger card payment businesses who can afford to give away card machines and seems anti competitive in it's nature.

The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and the net result will only be that we'll have to increase the cost of the monthly lease price to provide a return on investment on the machines. This clearly does not benefit the merchant.

I know these recommendations were probably made with the best intentions based on the presence of certain unscrupulous payment businesses in the market. But they are anti competitive and will lead to higher acquiring rates for customers once all the smaller players have been knocked out of the market.

A better option may be to reduce contract lengths to 36 months or even 30 months to allow smaller companies to compete and to provide merchants with more choice.

No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

Yours faithfully

[redacted]

[redacted]
Breathe Payments Ltd

Card Industry Professionals

Card Industry Professionals Ltd
[redacted]

01472 287763

1st August 2022

Card-Acquiring Remedies Consultation
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

Re: Card-Acquiring Market Remedies Consultation Response

Card Industry Professionals Ltd

Established in 2017, Card Industry Professionals (CIP) formed to ensure that all businesses have access to the latest and most relevant card payment solutions, education on pricing, alternative payment options, emerging trends and on-going support. Everyday CIP support thousands of SME businesses to process payments with a strong focus on offering businesses transparent pricing and first-class customer service. We believe in developing long term relationships with businesses, boosting confidence and building trust in the products and services we offer. This is proven by our 5-star rating on Trustpilot and our number 1 ranking in the categories of the best 'card processing service' out of 29 players in the industry and 'business to business service' out of 108 providers .

- [redacted] - Managing Director
  - Founded CIP in 2017
  - Sales experience for multiple players within the industry
  - Listed in Forbes '30 Under 30' Europe Class of 2021 - Finance

- [redacted] - Sales Director
  - Over 25 years management experience
  - Spent the last 15 years within the UK card payment industry
  - Head of Sales North Paymentsense 2009-2017
  - Head of Sales North RMS 2007-2009

- [redacted] - Operations Director
  - Over 25 years' experience within the card payment industry
  - Worked alongside the majority of UK Acquirers
  - Head of Operations Paymentsense 2009-2016

- Channel Relationship Manager Elavon 2005-2009
- Sales Support Manager Cardsave (now Worldpay) 1998-2005

- [redacted] Non-Executive Director and Chair of the Board
  - Extensive career in international banking, including JP Morgan, NatWest and Chase Manhattan Ltd

- [redacted] Non-Executive Director
  - Chief Executive of Bacs Payment Schemes Ltd (Bacs), the UK's largest retail payment system 2004-2018

General Comments

Card Industry Professionals is an independent sales organisation which launched after identifying a gap in the market in relation to SME businesses. We recognised that traditional card-acquiring services do not work well for SME merchants with turnover below £50 million per annum. Our business model is to work with our merchants, to understand their business needs and provide a customised solution from one of our many providers that best meets these needs. Our ethos is to educate customers around the total costs of their card payment solutions, advise them of the many different options available in the market and provide industry leading customer service support throughout. Outcomes from the Payment Systems Regulator's Card-Acquiring Market Remedies Consultation that reduce obstacles to switching, provide greater transparency in the market and educate and engage merchants about their card payment solutions would be welcomed by CIP.

We understand that the PSR have chosen the 14 named institutions because they represent 95% of the market, however we would argue that a more appropriate remedy would be to ensure a level playing field encompassing all market providers. This could be achieved by the PSR issuing a General Direction, which, we believe, would be a fair and equitable response, that would also ensure that the PSR recommendations are future proofed in respect of future providers in this market.

We are supportive of the first two suggested remedies, provision of information (summary box) and trigger messages on the basis that they are equitably applied across the industry, easy to interpret and provide actionable information. We agree with the cost benefit analysis of these two measures and agree that these two changes would significantly benefit our merchants.

In respect of the final directive, Acquirer POS Terminal Lease Extent, which would cap agreement lengths at 18 months, we have major concerns about the proportionality of this recommendation as a means of achieving a legitimate aim. We do not believe it is the best interests of merchants for a number of reasons:

- Merchants will experience a restricted freedom of choice resulting in higher monthly costs for their card payment services as hardware costs will be spread over a maximum 18 months versus more longer-term payment options. The option of funding being spread over a longer period makes technology accessible to merchants who otherwise would not be able to afford it.

- Shrinkflation / Skimpflation will mean that customers experience a lower standard of customer service and repurposed / reissued technology

- It is not environmentally sound, ethical or necessary to issue new terminals to customers every 18 months.

- Many merchants like to have the stability of certainty of price that longer term terminal agreements provide, particularly in periods of high inflation. We believe that the combined costs of successive 18-month contracts could in many cases exceed the costs of one longer term agreement.

- Changing terminals more regularly will result in additional indirect costs for the merchant, in respect of employee training and changing internal processes.

At CIP we are passionate about delivering great customer service, tailored product solutions and the best possible price for our customers. To enable us to do this we work with a range of providers, but we are concerned that such a remedy would impact on merchant freedom of choice and certainty of costs.

Card-Acquiring - Provision of Information (Summary Box)

Summary boxes containing bespoke key price and non-price information to be sent individually to each merchant and made available in their online account - we consider it our responsibility to educate our merchants about the total charges of card acquiring services and believe that the proposed summary box will support our business objectives of achieving the best possible deal for our SME merchants.

Clear pricing structures support price comparison for both our customers and colleagues, which we believe, will be overwhelmingly beneficial to our merchants. One caveat to this would be that we would need to ensure industry standardisation of terminology in the same way the Food Standards Agency introduced the traffic light system for food labelling and ensure all elements of card services provisions are incorporated to provide full transparency and enabling genuine like for like comparison.

Our view is that summary boxes should be equitably applied across the industry, easy to interpret and easy for merchants to take action based on this information. On balance our preference would be for Option 2 as demonstrated in the consultation document, however we have concerns about the equitability and the actionability of the information displayed, so would like to suggest a 3rd option as a solution as illustrated here.

Contract expiry date	28 December 2022

BOX 1: YOUR MERCHANT SERVICE CHARGES			
Card Type			
Scheme	Consumer / Commercial	Credit / Debit	Rate
Visa	Consumer	Debit	x%
Visa	Consumer	Credit	x%
Visa	Commercial	Debit	x%
Visa	Commercial	Credit	x%
Mastercard	etc	etc	etc
Diners	etc	etc	etc
UTP	etc	etc	etc
etc	etc	etc	etc

Please note that the MSC rates outlined above cover card payments that attract a standard domestic card-present interchange fee. Futher fees and charges may be added to these rates, depending on the exact nature of a particular transaction - e.g. where it is an international payment. Please see box 2 for an overview of such additional fees and charges.

Additional charges per transaction	
Authorisation fee	4p

Example			
If your customer uses a Mastercard consumer debit card in person (in your store) to purchase a £10 item, you would pay:	7p (0.7% of £10.00)	+ 4p (authorisation fee)	= 11p

Other potential transaction charges	
Chargeback fee	£24.00
Retrieval fee	£2.00
Any other fees	

Some typical monthly charges you may have to pay in addition to transaction costs	
POS terminal (per terminal)	£20.00
Gateway[5]	included
Payment Card Industry Data Security Standard (PCI DSS) fee[6]	£5.00
Minimum Monthly Service Charge (MMSC)[7]	£20.00

Card-Acquiring - Trigger Messages

Trigger messages to prompt merchants to shop around and/or switch, to be sent by providers of card-acquiring services to their merchant customers and shown prominently in their online account. The timing of these messages will be linked to minimum contract term expiry dates or, where contracts are indefinite, be required to be provided at least once every 30 working days.

Our view at Card Industry Professionals is that this is a positive, proactive step that will drive increased education, awareness and competition in the marketplace.
Clear visibility of merchant's existing contractual commitments will enable our sales agents to best consider the most appropriate solution and maximise customer benefit when determining the best time to switch to minimise any early termination fees etc. and avoid any unexpected charges.

From our perspective we believe that the cost benefit analysis of such a remedy provides significant advantages for merchants and could be implemented relatively quickly.

Acquirer POS Terminal Lease Extent

In respect of the final directive, Acquirer POS Terminal Lease Extent, which would cap agreement lengths at 18 months, we have major concerns about the proportionality of this recommendation as a means of achieving a legitimate aim.

We do not believe that this is in the best interests of merchants for a number of reasons:

- Merchants will experience higher monthly costs for their card payment services, as hardware costs will be spread over a maximum 18 months versus more longer-term payment options. Hardware costs would need to be re-couped during the 18-month agreement as we know from analysis of our back book, that less than [redacted] of our merchants remain in a rolling 30-day contract at the end of their initial agreement terms. Whilst 'reasonable hardware costs' can be recouped during an 18-month agreement, we would argue that such agreements would not enable providers to cover all costs, such as business support, tech support, customer services etc. These costs would have to be passed on to the customer in one form or another to ensure commercial viability.

- Shrinkflation / Skimpflation will mean that customers may experience a lower standard of customer service and second-rate technology. There is insufficient revenue in an 18-month agreement to enable the highest standards of customer service to be maintained. Currently we provide a 7 day a week, 365 day a year customer support helpline. If we were to adopt a maximum18 month agreements only, costs of those contracts would a) have to increase, or b) service be curtailed or charged as an additional fee or c) provide lesser value hardware. This will result in merchants receiving standards of customer service and support below what they are used to, or technology that is of a lower specification or refurbished and second hand with signs of wear. Currently less than [redacted] of the terminals we provide are refurbished. However, with refurbishment costs being approximately [redacted], this will drive card payment solution providers to use reconditioned machines in order to maximise profitability, when revenue is restricted in other areas. It is our belief that this could slow the technological adaptation to new improved smart POS touchscreen devices and digital payment tools that provide additional functionality, faster processing and significant productivity and operational benefits to our merchants.

- It is not environmentally sound, ethical or necessary to issue new terminals to customers every 18 months. The vast majority of our customers that we retain choose to update their terminals at the end of their agreement terms regardless of length. New hardware being provided every 18 months is at odds with the trend in other industries. For example, mobile phone contracts are moving from 2-year typical contracts to 3 years. This is due to increased performance and improved hardware and spreading the costs of this innovative technology over a longer period of time makes it attainable to customers who wouldn't otherwise be able to afford it, enabling them to benefit from utilising market leading technology.

- Many merchants like to have the stability of certainty of price that a longer-term agreement provides, particularly in periods of high inflation. We believe that the combined costs of successive 18-month agreements will in many cases exceed the costs of one longer term agreement, despite the increased competition in marketplace driving down prices. This is due to the significant costs of two sets of hardware versus on the longer-term agreement. Exchanging hardware as frequently as every 18 months is not required as currently on the rare occasion a machine fails, we swap this out on the next working day for a replacement free of charge for our merchants. If we limit agreement lengths to 18 months it will be impossible for providers to bear this cost and therefore merchants will face increased costs associated with this, either in terms of add on monthly insurance costs or one-off replacement and courier costs.

- Changing terminals more regularly will result in additional indirect costs for the merchant, in respect of employee training, human error and changing internal processes. These costs will be impossible to quantify in 'summary boxes' but could be substantial for our SME merchants.

At CIP we are passionate about delivering great customer service, customised product solutions and the best possible price for our customers. To enable us to do this we work with a range of providers and offer a diverse product mix, but we are concerned that such a remedy to cap agreement lengths to 18 months would impact on merchant freedom of choice and ultimately result in less competition in the marketplace.

Acquirer POS Terminal Lease Extent - Recommendations

We would welcome the opportunity to put forward amended suggestions and refined recommendations for consideration. Recommendations that we believe would achieve the same legitimate aim, whilst not overly restricting customer choice.

We understand that the PSR have chosen the 14 named institutions because they represent 95% of the market, however we would argue that a more appropriate remedy would be to ensure a level playing field encompassing all market providers. This could be achieved by the PSR issuing a General Direction, which, we believe, would be a fair and equitable response, that would also ensure that the PSR recommendations are future proofed in respect of future providers in this market.

We passionately believe in tailored solutions, what is right for one business will not be for another or even the same business at a different stage in their lifecycle. We have a diverse product mix of a variety of card payment solution options and currently offer no contract (rolling 30 days), 12, 24, 36 and 48-month agreement terms. Non-contract (rolling 30 days) options currently account for one third of our merchant customer base in the UK.

It is our understanding that the objectives of the PSR review was to tackle the **lack of transparency, over pricing and lengthy contracts** for the leasing of POS terminal card readers in order to **allow merchants to shop around and make informed choices**.

- We believe this aim could be achieved with the following modified steps to the terminal lease extent proposal, in addition to the implementation of summary boxes and trigger messages:

  - Prevent auto-renewing of agreements

  - Prevent any additional end of contract charges such as the restocking fees which have become common practice amongst the larger acquirers

  - Provide merchant freedom of choice of agreement length to meet their needs from no contract (rolling 30 days) to 12, 24, 36 and 48-month agreement terms

  - Mandate that when selling a longer-term product, whether a provider has an inhouse solution or not, they have to discuss with the merchant all options available within the marketplace from the no contract options such as Zettle By PayPal, Sum Up and Square etc to a range of contract term agreement options. An industry standard declaration could be devised to be signed by the merchant when choosing a longer-term agreement option to confirm that they understand the advantages and disadvantages of entering into a longer-term agreement and are aware that non-contract and shorter-term products are available in the marketplace.

  - Alternatively, one step further, would be to require that every card payment services provider has to have, at a minimum, a no contract and 18-month agreement option in addition to any longer term offers in their product portfolio. All options would have to be presented with price and product comparisons to a prospective merchant and again a declaration to be signed to confirm their understanding. This would be a robust option that would ensure increased education, awareness and engagement of merchants and provide significant customer benefits without unnecessarily restricting freedom of choice.

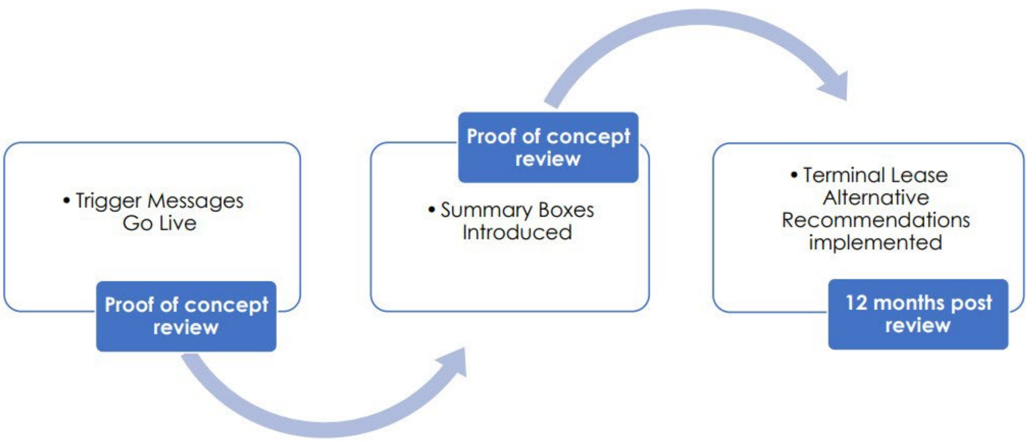
- Our final recommendation would be to consider forming an Industry Working Body with representatives from acquirers and ISO's who could work collaboratively with the Payment Systems Regulator to shape the implementation of the PSR's final remedies and coordinate industry wide implementation over an appropriately agreed timescale. Such working body's have been utilised successfully in the past, in the Asset Management industry for example, to identify and implement industry wide 'guiding principles' that satisfy the challenges outlined by the regulator.

It is our firm belief that these refinements should at least be tested as a proof of concept, before such restrictive measures as an 18-month agreement cap be enforced.

Timescales

We would be advocates of a staggered approach to the remedies, firstly implementing trigger messages, followed by summary boxes with an agreed industry wide standardised template and then the introduction of the terminal lease extent remedy (reflecting the conclusions to the alternative recommendations we have proposed).

We work in an agile way with acquirers, providers and merchants on a daily basis. We also have an excellent understanding of the infrastructure and legacy systems at play in the card acquiring market. This informs our belief that the earliest that these recommendations could be successfully implemented would be January 2024, which would allow the necessary time to prepare and communicate to merchants ensuring that the recommendations would be delivered right first time.



We believe that it would be useful for a proof of concept to be undertaken to enable the summary box content to be refined based on feedback from merchants.

Summary

Card Industry Professionals is an independent sales organisation. Our business model is to work with our merchants, to understand their business needs and provide a customised solution from our providers that best meets these needs. Our partners include EVO, Elavon and Zettle By PayPal. To that end we have read and support their responses to this consultation.

Card Industry Professionals Ltd are supportive of the first two suggested remedies, provision of information (summary box) and trigger messages on the basis that they are equitably applied across the industry, easy to interpret and provide actionable information for the merchant.

In respect of the final directive, Acquirer POS Terminal Lease Extent, which would cap agreement lengths at 18 months, we have major concerns about the proportionality of this recommendation as a means of achieving a legitimate aim. We do not believe it is the best interests of SME merchants for the reasons that we have outlined above.

It is our understanding that the objectives of the PSR review was to tackle the lack of transparency, over pricing and lengthy contracts for the leasing of POS terminal card readers in order to allow merchants to shop around and make informed choices.

- We believe this aim could be achieved with the following modified steps in addition to the implementation of summary boxes and trigger messages:
    - Prevent auto-renewing of agreements
    - Prevent any additional end of contract charges such as the restocking fees which have become common practice amongst the larger acquirers
    - Provide merchant freedom of choice of agreement length to meet their needs from no contract (rolling 30 days) to 12, 24, 36 and 48-month agreement terms
    - Mandate that when selling a longer-term product, whether a provider has an inhouse solution or not, they have to discuss with the merchant all options available within the marketplace from the no contract options such as Zetlle By PayPal, Sum Up and Square etc to a range of contract options. An industry standard declaration could be devised to be signed by the merchant when choosing a longer-term agreement option to confirm that they understand the advantages

and disadvantages of entering into a longer-term agreement and are aware that non-contract and shorter-term products are available in the marketplace.

- Alternatively, one step further would be to require that every card payment services provider has to have a no contract and 18-month agreement option in addition to any current longer term offers in their product portfolio. All options would have to be presented with price and product comparisons to a prospective merchant and again a declaration to be signed to confirm their understanding. This would be a robust option that would ensure increased education, awareness and engagement of merchants and provide significant customer benefits without unnecessarily restricting freedom of choice.

- Our final recommendation would be to consider forming an Industry Working Body with representatives from acquirers and ISO's who could work collaboratively with the Payment Systems Regulator to shape the implementation of the PSR's final remedies and coordinate industry wide implementation over an appropriately agreed timescale. Such working bodies have been utilised successfully in the past, in the Asset Management industry for example, to identify and implement industry wide 'guiding principles' that satisfy the challenges outlined by the regulator.

It is our firm belief that these refinements should be tested as a proof of concept, before such restrictive measures as an 18-month agreement cap be enforced.

Yours sincerely

[redacted]

Managing Director
Card Industry Professionals

Eden One Group

From: [redacted]

Sent: 02 August 2022 17:01

To: cards@psr.org.uk

Subject:Card-acquiring market

This email has come from an external source. BE CAREFUL of links and attachments and report suspicious emails

Hi there,

I have read your artical on the PSR website and found it a little unsettling.

I have been in this industry selling for 4 years and have a good feel of what merchants of various sizes

prefer.

Holding someone to a 18 month max deal is a inefficient way to do business. Look at energy or mobile

phones they can range from monthly all the way up to 4 years. 4 years should be the maximum. All businesses can work out their savings over this period and it protects them for the term of the agreement from external factors can effect a business that a shorter term deal might experience.

Also the cost of the lease will be effected on a short term deal, I believe there should be a sliding scale of

rate choice for different terms. i.e. 12 mths higher rates, 24 mths less, 36 mths less than 24 mths, 48 mths the best rates. Merchants can make a decision on this.

The merchant should be free to choose the contract length but should be allowed to leave all agreements if the lease and termination fee of a maximum of £100 is paid. They should be allowed leave

any provider if they are not happy or want to leave as long as it is done so in writing and there is no debt

outstanding.

I hope this all makes sense and I felt a strong urge to say something as a small business.

Kind regards,

[redacted]

Elavon

ELAVON RESPONSE TO THE PSR CONSULTATION ON PROVISIONAL DECISIONS

From: Elavon Financial Services DAC

To: Card-acquiring Remedies Consultation, Payment Systems Regulator, 12 Endeavour Square London E20 1JN (cards@psr.org.uk)
Date: 10/08/2022

Re: *Elavon response to the Payment Systems Regulator market review into card-acquiring services consultation on provisional decisions*

Introduction

Elavon is committed to providing our customers a positive experience and good outcomes throughout all stages of our relationship with them. We always endeavour to put the merchant at the heart of our business.

We welcome the PSR's open and continued engagement with the industry. We are grateful for the opportunity to work with the PSR to develop its provisional decisions in a way that will be beneficial for merchants and the entire payments market.

We note that the PSR's consultation paper invites "comments" from stakeholders and interested parties on the PSR's proposals, draft decisions and draft CBA. Given the relatively short consultation period, we have concentrated our comments on the aspects of the PSR's provisional decisions that are most salient from an Elavon perspective: the implementation period; scope of the remedies; the impact on ISOs business models of the POS terminal supply contract remedy and trigger messages.

Implementation period

We understand the PSR has provisionally decided that the remedies will be required to be in place and fully implemented no later than three months after its final directions are given. We also understand this period was decided by the PSR having been deemed 'reasonable' by providers in the course of its stakeholder engagement.

For avoidance of doubt, Elavon was not one of the providers who indicated to the PSR three months was a 'reasonable' period. We do not believe that it is realistic or achievable for us to fully implement the remedies in the PSR's proposed implementation period.

While we believe that limited preparatory work could be undertaken in advance of the final direction being given by the PSR, the most significant part of any future implementation will necessarily take place after we understand the technical design specifications in the final directions.

For clarity, several considerations inform our position:

- The changes proposed by the PSR, in particular the remedies relating to summary information boxes and online quotation tools, will require Elavon to make decisions regarding budget allocation; execute system developments; and perform extensive customer testing and piloting processes. These activities are necessary to ensure we introduce solutions to the market that are fit-for-purpose and that avoid negative merchant outcomes and experience through e.g., unclear or ineffective communication, technical glitches, etc.

- The online quotation tool and POS terminal contract limitations will require Elavon to conduct contract negotiation with its partners, including ISOs and payment facilitators, in order to incorporate requisite obligations and oversight arrangements. We have experience re-negotiating partner terms to accommodate other regulatory changes and have a clear understanding of the often-protracted effort involved in concluding them.

- As a regulated credit institution, Elavon ensures that complex regulatory changes with a potential impact to both its customers and partners are subject to robust change management and governance processes. We view the provisional decisions proposed by the PSR as within this category. These processes necessitate the iterative involvement of multiple business line and second line teams to ensure that implemented changes meet required internal and external expectations.

In light of these considerations, we believe that a more appropriate implementation period would be a minimum of 12 months and we would recommend that the PSR should not require full implementation of the remedies before January 2024 at the earliest.

We are cognisant that similar concerns to ours were expressed by other members of industry to the PSR at its industry roundtable on 20th July 2022. We also understand that the UK Finance industry body is recommending an implementation period of similar duration.

We wish to emphasise that it is in the interest of the entire payments market that the final remedies, when agreed, are implemented by industry in a considered and thorough manner, so that the features of concern identified by the PSR are mitigated.

Scope of the remedies and specific directions

In our response to the PSR's interim report on its market review we expressed concern that the PSR's assessment of the UK market for card-acquiring services was incomplete, in that it did not fully consider the role and effect of key participants in the payments market such as payment facilitators, marketplaces, payment gateways and schemes, or of alternative payment method providers.

We stated that an incomplete assessment of the market created a risk that the proposed remedies of the PSR would not reflect the full extent of competition in market. On that basis we encouraged the PSR to develop remedies that applied to all payments market participants.

We are disappointed that the PSR has chosen to limit its review of the payments market to card-acquiring alone and are disconcerted that it is now proposing to direct its remedies to only a limited number of card-acquiring service providers.

To be clear, we do not understand how the application of the remedies to only fourteen providers is either a fair or an effective way for the PSR to address the findings it has made. We neither understand how the PSR intends to monitor the application of the remedies to the fourteen providers prospectively, or decide to include other providers into the scope of the remedies. In our view, the PSR is proposing to create an un-level playing field, to the competitive disadvantage of the providers to whom its remedies apply.

Additionally, acquirers have a duty of responsibility for the organisations that market their products. By not applying the remedies to every acquirer in the market, we believe the PSR's desired remedies will be effectuated through the marketplace, limiting the beneficial impact expected on merchants.

We outline the rationale for our concerns further in the following sections.

Effect on competition and merchant coverage

We are concerned about the likely distortive effect on market competition. We understand that the PSR believes "95% of the retailer transactions in the UK" are covered by the fourteen named providers, with reference to volumes and value of transactions processed, and the numbers of small and medium sized merchant customers served.

However, we believe the application of the remedies to only fourteen providers effectively creates a two-tiered payments market with negative effects for both providers and merchants. As such, not only will the PSR's approach create an un-level playing field for market participants, it will also ensure there are merchants who will not enjoy the protections it wishes to introduce to the market.

We are concerned that the partial market-application of the remedies proposed by the PSR will grant commercial advantages to providers not within their current scope. These excluded providers will be free to, for example, attract new ISO partners by offering them the continued ability to provide POS terminal supply contracts with longer initial term durations.

To be clear, we are not convinced that providers not currently within the remedies' scope will freely choose to apply them, as the PSR has suggested. Rather, we believe that these excluded providers will be incentivised to capitalise on the commercial opportunity they are being afforded to circumvent the remedies.

[redacted]

[redacted]

[redacted]

[redacted] In light of these likely consequences, we question whether final directions of more general application and which respects the principle of 'same activity, same risk, same regulation' would be a fairer and more appropriate way of ensuring effective market competition and equal protections for merchants.

In the alternate, if the PSR chooses to proceed with final directions applicable to a limited number of providers, we urge it to be transparent about how it intends to monitor the scope of application of the remedies on a prospective basis.

The payments market is evolving rapidly and we expect the market shares of the main providers to fluctuate in the coming years. We think the frequency with which the PSR intends to review the remedies' application to providers and the criteria for their application should be made explicit.

Ambiguity about the responsibility for oversight

We are also concerned by the apparent ambiguity about how the PSR expects the provisional decisions will be monitored and enforced. We are also concerned by the apparent obligation being introduced for providers to monitor compliance with the remedies by their ISO and payment facilitator partners.

For example, we understand the PSR intends for us to ensure our ISO partners provide an online quotation tool on their websites and that their contracts with merchants for the provision of POS terminals respects the term limits decided by the PSR.

As a matter of principle, we do not believe it is appropriate that the PSR expects providers to monitor and enforce compliance with its directions by third party market participants. This is particularly the case where our understanding is that the PSR's regulatory jurisdiction does not apply to some of the parties which it expects the providers to oversee, i.e., ISOs.

For this reason, we again question if a final direction of more general application may be a better means of addressing the PSR's identified features of concern. However, should the PSR choose to make compliance by these third parties the responsibility of the named providers, it should also make clear what oversight arrangements, reporting obligations and monitoring activities providers should implement to ensure compliance.

POS terminal supply contracts

In both our response to the PSR's interim report on its market review and our response to its consultation on remedies, we emphasised the benefits that ISOs bring to the payments market. We previously provided the PSR with evidence to substantiate those benefits from our Economic Advisor, in particular about the significantly positive role ISOs play in delivering better MSC rates for merchants.

We have also expressed concern that if POS terminal supply contract lengths are increased across the entire market, it could have the effect of:

- ISOs seeking increases in their terminal rental (potentially in the region of 50% to 100%);
- If ISOs are unable to achieve higher terminal rental costs, they will compensate for lost income through higher MSC. This is likely to lead to merchants paying more overall on their bill;
- Reduced competition could ensue as:
    - Acquirer direct sales and large ISOs will leverage better financial positions to win shares;

- Established but smaller ISOs will sell their business/portfolio and exit the market as their business model will no longer work; and
- There will be no incentive for new ISOs to enter the market.

Accounting for these concerns, in our response to the PSR's consultation on remedies we suggested an alternative to enforcing market-wide shorter contract terms that we believed also mitigated the PSR's identified feature of concern.

We recommended that the PSR mandate what we labelled 'multi-acquirer interoperability',[1] a model which is already in operation in the payments market and which we believe is commercially feasible for providers. We suggested that the PSR adopt a dual approach to POS terminal supply contracts, with the following two options available to the market:

- Longer durations contract should be permitted under the 'multi-acquirer interoperability' model, i.e., for those market participants who could offer it to merchants; and
- Shorter duration contracts (e.g., 18 months) may be required in circumstances where the POS terminal cannot be migrated or supported with multiple providers.

It remains Elavon's view that ISOs play an important role in providing merchants with choice and enabling costs savings. We believe that any provisional decisions the PSR proposes should take account of the ISO business model and consider if the shortening of contracts across the market could reduce options in the market; ultimately to the detriment of merchants.

We re-iterate our concerns in this response and ask the PSR to consider our proposed solution as a balanced means of guaranteeing the continued market benefits of ISOs while ensuring that POS terminals and POS terminal contracts do not prevent or discourage merchants from searching and switching provider of card-acquiring services.

Trigger messages

As we stated in both our response to the PSR's interim report on its market review and our response to its consultation on remedies, we are supportive of the introduction of a trigger message informing merchants that they may consider, or switch to, another provider. We believe these trigger messages should be standardised across the industry in terms of template design and timing to allow merchants to compare 'like with like'.

However, we are concerned that the language in the PSR's proposed trigger message contains both an undue focus on pricing elements of card-acquiring services and an undue encouragement for merchants to switch provider rather than engaging or re-negotiating with their current provider.

We understand that merchants' decisions to switch provider are not solely driven by the price of the service they receive but also by its quality. For example, we would see little benefit for a merchant receiving a lower price in their MSC if it was accompanied by a higher fraud rate, higher levels of chargebacks, slower funding and settlement times and more frequent acquirer systems downtime.

---

[1] 'Multi-acquirer interoperability' is a model of interoperability that permits interoperability among major UK acquirers and approximately 90% of transactions at the 'host level'. We detailed this model in our answers to questions 18 to 26 of our response to the PSR's consultation on remedies.

We would ask the PSR to reconsider its proposed language to avoid these current emphases on pricing and switching. We have been consistent in our responses that the PSR's remedies need to ensure sufficient emphasis of both price elements of card-acquiring services and of performance metrics.

Concluding comments

In light of our comments set out above, we would welcome the opportunity to work with the PSR to further refine its provisional decisions. We believe that industry participation in this way will ensure a more successful implementation and delivery of the PSR's preferred remedies, to the benefit of merchants and the entire payments market.

Note on confidentiality of material

Elavon has included in this response material and information that it considers 'confidential' about its business activity the disclosure of which could cause serious harm to Elavon. This material is highlighted and italicised, above.

Electronic Money Association

Electronic Money Association
[redacted]
www.e-ma.org

Card-acquiring Remedies Consultation
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

By email to: cards@psr.org.uk

Wednesday 10 August 2022

Dear Neil

Re: PSR CP22/3 Card-acquiring remedies market review; provisional decision

We welcome the opportunity to provide input to the PSR's provision decision following the card-acquiring remedies market review.

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses worldwide, providing online payments, card-based products, electronic vouchers, and mobile payment instruments. Most members operate across the EU, most frequently on a cross-border basis. A list of current EMA members is provided at the end of this document. The EMA has been operating for over 20 years and has a wealth of experience regarding the regulatory framework for electronic money and payments. A list of current EMA members is provided at the end of this document at ANNEX II.

We would be grateful for your consideration of our comments to the provisional decision, which are set out below at ANNEX I.

Yours sincerely

[redacted]

[redacted]
Electronic Money Association

ANNEX I

Timeline to comply

The PSR have provisionally decided that the remedies must be in place and fully implemented no later than three months after the final decisions are given. [CP 2.17]

We do not consider that three months is sufficient for providers to build the online quotation tool and put in place mechanisms in order to send the required trigger messages. We therefore propose changing the decision so that the remedies must be in place and fully implemented no longer than **12 months** after the final decisions are given. The PSR may also wish to consider a phased approach, whereby some remedies are implemented later than others.

We note the PSR's assertion in paragraph 2.7: *In our stakeholder engagement, providers have indicated that this would be a reasonable period for implementation given the systems requirements for the remedies we plan to introduce.* However, our members do not share this assessment.

Should the PSR's short timeframe remain, providers may have to begin implementation prior to the remedies becoming finalised in the form of directions. To do so creates a risk for providers that their solutions fail to meet the final directions' requirements, and require costly re-working in very short timescales.

The likelihood of this risk arising is illustrated by the fact that since the PSR published CP22/1 Consultation on Remedies in January 2022, the proposed remedies described in that consultation differ from the remedies described in CP 22/3 in the provisional decision. For example, in CP22/1 in January 2022, the PSR proposed a third party / intermediary building and providing a digital comparison tool ("***ICT***") whereby PSPs would provide pricing data to this intermediary to collate in an ICT. This has now changed in CP 22/3 in the provision decision to PSPs **themselves** building an online tool to provide to customers on their website. This is a completely different proposition necessitating more resources on the part of PSPs subject to the directions.

PSPs subject to direction by the PSR must be given adequate notice and we consider that three months to implement the remedies set down by Directions 1 and 2 is not adequate. In summary, we ask the PSR to extend the deadline for implementation to 12 months after the final decisions are given.

Scope of PSPs

The PSPs subject to the specific directions are 14 providers of card-acquiring services. We note these providers have been identified as the most significant providers of card-acquiring services to the merchants in the UK. The PSR identified these providers based on volumes and value of transactions processed, and the numbers of small and medium sized merchant customers served [CP22/3; paragraph 2.10].

We would welcome further clarity on the following matters:

1. The rationale for proposing specific directions to 14 named firms rather than a General Direction.
2. Over what time period was the data the PSR used to identify the list of 14 firms.
3. How the PSR intends to manage and update the list of directed PSPs in the future. For instance, what are the thresholds below which a PSP would no longer be considered of sufficient size to warrant direction, and similarly how will new PSPs be added to the list should their market share increase. Does the PSR intend to review this list on an ongoing basis or periodically, and if the latter, what frequency does the PSR consider sufficient?

Scope of merchants

The remedies that will address the features of concern relating to price transparency (summary boxes and online quotation tools) and the indefinite nature of some contracts (trigger messages) will apply to the directed providers in respect of their merchant customers with a card turnover up to £50 million [CP22/3; paragraph 2.13].

The scope of merchants for directions 1 and 2 **should be reduced from GBP 50 million to merchants with a card turnover up to GBP 10 million**. Merchants with high card turnovers (for example, between GBP 10 million and 50 million) are highly sophisticated businesses that demand bespoke pricing from their acquirers. They engage in commercial negotiations with their chosen acquirer to negotiate the price of services. Such sophisticated merchants do not require summary boxes; they already have complex commercial contracts with pricing schedules that set out the exact price they have negotiated. These merchants have carefully considered the pricing to which they have agreed in the course of commercial negotiations – a summary box does not provide any helpful information to them.

Further, sophisticated merchants do not visit PSPs' websites and obtain pricing information through an online tool. The merchant would, generally speaking, liaise with the acquirer through a dedicated business development manager (or similarly titled representative of the acquirer) who will offer solutions and pricing, tailored to the merchant's particular requirements.

Given this market reality, merchants with high turnover (between, for example, GBP 10 million and GBP 50 million) will not benefit from summary boxes – the summary boxes are not sophisticated enough for their purposes (more comments on this below). Second, such merchants will also not utilise an online pricing tool as proposed in the directions.

We therefore ask the PSR to change the scope of the remedies to apply to merchant customers with a card turnover up to £10 million (down from GBP 50 million).

We would also welcome clarity regarding how the card turnover should be calculated; should it be based on projected volumes or historical volumes for example.

Direction 1: Summary box

Annex 2 of CP 22/3 sets out two options for the template summary box. We consider that both of these template options are too prescriptive. Rather than requiring PSPs to use a prescribed form of summary box, we propose the PSR direct PSPs to disclose certain minimum data points to merchants **but not mandate the format in which these data points are provided.**

The PSP would therefore be free to choose the format in which this data is provided to the merchant.

This would allow the PSP to provide the merchant with the practical information in a manner that aligns with their branding and customer proposition.

Micro and small merchants (who have a lower card turnover) often pay acquiring charges based on a blended rate. Which is usually not delineated by payment method or CNP / CP. This is straightforward for the micro or small merchant to work with; they can therefore get on with their business and not expend resources negotiating complex Interchange Plus (IC+) or Plus Plus (IC ++) pricing (in the way in which a large merchant would).

We note that for these micro and small merchants paying a blended rate, the fields in the summary boxes will be filled with repetitive information or just generally not apply. In this case, the merchant would find it more helpful if the PSP were to provide information that was based on their pricing structure rather than trying to convey simple pricing (blended) into a complex format (the summary box).

The summary box template is also not suitable for large merchants (i.e. those merchants with a significant card turnover of, say, above GBP 10 million). For these large merchants, the summary box is too simple and does not provide enough detail. Large merchants can spend a lot of time and resources carefully considering and negotiating IC ++ pricing with their acquiring partner. The summary box template does not display the extent of this detail and is therefore not helpful for large merchants either.

We do not consider that a single summary box template can convey meaningful information to all types of merchants whether micro merchants on simple blended pricing or large merchants who have negotiated complex IC++ pricing.

We therefore propose the PSR, instead of proceeding with the summary box, set down minimum data points that the PSP must disclose the merchant. This will allow the PSP to disclose pricing data in format that is helpful to the merchant rather than in a format that may be unhelpful or unsuitable.

If the PSR do progress with a standardised summary box, they may wish to consider standardising terminology and calculation methods as different acquirers tend to use different terminologies for different types of fees, and the summary boxes will otherwise not be comparable.

Direction 1: Online quotation tool

As set out in our comments above in “Timeline to comply”, we believe that it will take longer than three months to build, test and launch the online quotation tool. Accordingly, we propose the PSR extend the timeline to comply to 12 months following the final decisions.

As set out above under “Scope of merchants”, we reiterate here that, in practice, merchants with a turnover of between GBP 10 million and GBP 50 million want bespoke pricing for acquiring services. They will engage in sophisticated commercial negotiations to agree the pricing for acquiring services that best suits their business. Large merchants with this level of turnover do not visit PSPs’ websites searching for pricing. Large merchants could, for example, submit an RFP to several acquirers. When large merchants interact with one acquirer, they liaise through a dedicated business representative who will offer solutions and pricing tailored to the merchant’s business.

For these reasons, the PSR should change the scope of the online quotation tool remedy to apply to merchant customers with a card turnover up to GBP 10 million (down from GBP 50 million). In practice, large merchants will not utilise the online quotation tool. Even for smaller customers however, as the online quotation tool can only provide indicative pricing, its value may be limited.

We would also welcome clarity regarding the data points that should be included in the online tool.

Direction 2: Trigger messages

The PSR proposes to require PSPs to send the trigger message on a monthly basis (after the minimum term of the contract if there was a minimum term) to remind the merchant that they can switch provider [CP22/3; direction 2; paragraphs 3.7-3.10]. We believe that monthly trigger messages is far too frequent and may not achieve the objective that the PSR intends.

Receiving the same message on a monthly basis will likely become tedious for merchants. The merchant may respond by not paying attention to such a message; the merchant may even make a complaint about receiving spam.

We therefore propose:

- The frequency of the message is changed to once per year; or
- The merchant may elect to pause these messages, for example, by changing the settings in the merchant portal.

Separately, the requirement to display the trigger message prominently on the first landing page of the electronic dashboard [CP 22/3; direction 2; paragraph 3.12] should be removed. Prominently displaying this message and telling the merchant they should consider other providers may erode the merchant's trust in the PSP and damage the commercial relationship. Without knowing the regulatory context, these trigger messages will appear as though the PSP is trying to push the merchant away when, in reality, the merchant is a valued customer with whom the PSP shares a strong working relationship.

We therefore propose the PSR remove the requirement for the trigger message to be displayed prominently on the first landing page. We consider that sending the message once per year is sufficient.

Direction 3: POS contracts

The PSR has capped the minimum term of all POS contracts to 18 months [CP 22/3; direction 3; paragraphs 3.5 and 3.6].

We are not sure this remedy will have the effect the PSR intends, and we invite the PSR to provide further detail on the benefits that it believes maximum POS terminal lease and rental contracts can create for innovation and competition in the market.

It is not feasible to put a one-size-fits-all minimum term on all POS contracts. An 18-month cap on minimum terms does not affect, for example, a less-expensive POS terminal with minimal functionality for which the merchant leases month to month. However, the PSR is also seeking to apply the same minimum term to POS terminals that have extensive functionality and therefore cost more. A merchant will seek to spread this cost over a longer period of time.

Some PSPs subject to direction 3 offer POS stations that offer extensive functionality in addition to accepting payments that assist the merchant in the overall running of their business. For example, POS stations that enables merchants to check and manage inventory, take bookings, track sales, manage a staff rota, operate a loyalty scheme, access an app market, analyse data to inform customer trends and so on.

POS stations with this type of functionality are frequently offered to merchants on a hire-purchase arrangement whereby the merchant makes periodical payments and then owns the POS at the end of the term. The term for arrangements such as this can span years. This arrangement works for the merchant because they get to use the POS station immediately, whilst spreading the payments out to make them more manageable and affordable. Condensing periodical payments for a POS station (such as the one described above) into 18 months will have an impact on merchants, as spreading the purchase price of the POS station only over a period of 18 months would mean the periodic payments would increase to an unaffordable level, and reduce the merchant's choice.

We therefore believe that the length of contract term cannot be generalised and still meet the needs of merchants and so propose that the PSR should reconsider the impact of direction 3 relating to POS.

ANNEX II: List of EMA members as of August 2022:

AAVE LIMITED
Account Technologies
Airbnb Inc
Airwallex (UK) Limited
Allegro Group
American Express
ArcaPay Ltd
Azimo Limited
Banked
Bitpanda Payments GmbH
Bitstamp
BlaBla Connect UK Ltd
Blackhawk Network Ltd
Boku Inc
Booking Holdings Financial Services
CashFlows
Circle
Citadel Commerce UK Ltd
Contis
Corner Banca SA
Crypto.com
Curve
eBay Sarl
ECOMMPAY Limited
Em@ney Plc
emerchantpay Group Ltd
ePayments Systems Limited
Etsy Ireland UC
Euronet Worldwide Inc
Facebook Payments International Ltd
Financial House Limited
First Rate Exchange Services
FIS
Flex-e-card
Flywire
Gemini
Global Currency Exchange Network Limited
Globepay Limited
GoCardless Ltd
Google Payment Ltd
HUBUC
IDT Financial Services Limited
Imagor SA
Ixaris Systems Ltd
MANGOPAY
Modulr FS Europe Limited
MONAVATE
Moneyhub Financial Technology Ltd
Moorwand
MuchBetter
myPOS Europe Limited
NOELSE PAY
NoFrixion Ltd
OFX
OKTO
One Money Mail Ltd
OpenPayd
Own.Solutions
Park Card Services Limited
Paymentsense Limited
Paynt
Payoneer Europe Limited
PayPal Europe Ltd
Paysafe Group
Plaid
PPRO Financial Ltd
PPS
Ramp Swaps Ltd
Remitly
Revolut
SafeCharge UK Limited
Securiclick Limited
Skrill Limited
Soldo Financial Services Ireland DAC
Square
Stripe
SumUp Limited
Syspay Ltd
Transact Payments Limited
TransferMate Global Payments
TrueLayer Limited
Trustly Group AB
Uber BV
Vitesse PSP Ltd
Viva Payments SA
Weavr Limited
WEX Europe UK Limited
Wirex Limited
Wise
WorldFirst
WorldRemit LTD

Yapily Ltd

Financial Services Consumer Panel

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

Telephone: [redacted]
Email: [redacted]

XX August 2022

By email: [redacted]

Dear Sir / Madam,

Financial Services Consumer Panel response to PSR CP22/3: Consultation paper on provisional decision for card-acquiring market remedies

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

The Panel welcomes the provisional remedies set out in the PSR's consultation. As stated in our initial consultation response[1], we believe that the combination of greater transparency, price comparison tools, nudges and the removal of barriers to switching could do much to promote competition in the acquiring market.

We are generally supportive of the proposals under consultation. However, we note PSR's decision that it will no longer pursue direct measures to encourage Digital Comparison Tools (DCTs) for merchants. In light of this, we recommend the PSR monitor whether any commercial DCT tools emerge organically and reconsider intervening if appropriate solutions do not develop.

We would also like to reiterate our earlier suggestion that PSR explore the Reserve Bank of Australia's exploratory work into the possibility of extending the Consumer Data Right (CDR) to acquiring services provided to small businesses. The CDR is currently being rolled out for consumer banking services in Australia, where it is known as Open Banking, and was specifically designed to address the types of market inefficiencies that are evident in the acquiring market. The RBA believes the CDR could make it easier for merchants to seek quotes from alternative payments service providers by allowing them to easily source and share their detailed card transaction data. Additionally, and over the longer term, it believes that third-party providers offering comparison (and possibly switching) services could also emerge, further reducing merchants' search and switching costs[2].

Finally, we encourage PSR to implement the specific directions without delay. As stated in our earlier feedback, we are disappointed by the amount of time that work to bring these remedies to market is taking, considering that the PSR first announced its review into card-acquiring services in mid-2018. As we write this response, the wider economic environment has worsened dramatically and will see consumers and smaller businesses

[1] See https://www.fs-cp.org.uk/sites/default/files/final_fscp_response_psr_consultation_on_card_acquiring_remedies.pdf
[2] See https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-paymentsregulation/consultation-paper-202105/pdf/review-of-retail-payments-regulation-consultation-paper202105.pdf

significantly stretched in the coming months. Removing barriers to switching to better deals for card-acquiring services would provide welcome relief at a critical time both to merchants and, ultimately, consumers who ultimately bear the costs for such services. We therefore urge PSR to ensure it stays on track to finalise the remedies proposed by the end of the year at the latest, swiftly implementing specific directions thereafter.

Yours sincerely,

[redacted]
Chair, Financial Services Consumer Panel

GPUK

MARKET REVIEW INTO THE SUPPLY OF CARD-ACQUIRING SERVICES

GPUK LLP RESPONSE TO THE PAYMENT SYSTEMS REGULATOR'S CONSULTATION ON REMEDIES, JUNE 2022

1. **Executive Summary**

1.1 This response is prepared on behalf of GPUK LLP trading as Global Payments ("**GPUK**").

1.2 GPUK welcomes the opportunity to respond to the Payment Systems Regulator's ("**PSR**") provisional decision on remedies ("**Provisional Decision**") issued in June 2022 following the PSR's market review into the supply of card-acquiring services and publication of its final report in November 2021 ("**Final Report**") and of the initial remedies consultation ("**Initial Consultation**") in January 2022.

1.3 As noted in its response to the Initial Consultation, GPUK is supportive in principle of the PSR adopting a package of remedies that are effective in addressing any features in the market for the supply of card acquiring services that may serve, intentionally or unintentionally, to restrict the ability and willingness of merchants to search and switch between card acquirers. However, given the potentially wide reaching ramifications of any remedies imposed, it is essential that the remedies are reasonable, fair and proportionate and avoid unintended consequences that could tip the playing field materially in favour of some stakeholders at the expense of others and at the same time compromise the outcomes for merchants.

1.4 GPUK previously expressed concerns[1] that the package of remedies proposed would be disproportionate to the need to address features identified by the PSR in its Final Report. GPUK is encouraged that the package of remedies set out in the Provisional Decision has been amended to take account of industry feedback and that the PSR is no longer proposing a Digital Comparison Tool ("**DCT**") and has chosen to focus on bespoke rather than generic summary boxes.

1.5 GPUK also notes the inclusion in the proposed remedies of a new remedy by way of an online quotation tool (which was not in the first consultation document). GPUK considers that the inclusion of a new remedy at this stage of the PSR's process should nonetheless involve full consideration of responses provided on this aspect of the proposed remedies, and that the PSR should not assume that because this proposal has been added at this later stage, that a lesser degree of review would be appropriate or acceptable.

1.6 GPUK still considers that the proposed remedies that were consulted on previously are likely to face a number of challenges in terms of design and implementation given the characteristics of the card acquiring market.

1.7 GPUK also has a number of general concerns about the overall approach proposed:

1.7.1 **Scope:** GPUK does not agree that the remedies should be specific directions addressed only to 14 defined PSPs. GPUK considers that remedies that do not apply

[1] See GPUK response to the Initial Consultation

to the whole of the market risk leading to an unlevel playing field and poorer outcomes for merchants;

1.7.2 **Obligations of compliance for ISOs and POS terminal lease providers:** draft Specific Directions X1 and X3 place a burden on PSPs to ensure compliance by ISOs and third party POS terminal providers respectively. GPUK considers this places an unreasonable obligation on the directed PSPs which may not be achievable given these third parties are not under their control. Specifically, in the case of POS terminal lease providers, these third parties contract directly with merchants and GPUK is neither party to those contracts, nor involved in the contract negotiations or the terms agreed. GPUK has limited leverage over such third parties to mandate that they comply with the terms of Draft Specific Direction X3, ie that all POS terminal contracts are for an initial minimum term of no longer than 18 months. In practice, GPUK will not be able to mandate compliance with this requirement, nor will it necessarily be able effectively to monitor third parties' compliance with it. By addressing the specific direction only to the directed PSPs, as opposed to the terminal providers themselves, GPUK faces an increased risk of a compliance failure and any liability deriving from a breach in respect of the actions or omissions by an independent third party over which it has no control. GPUK would urge the PSR to address the 18 month contract obligation directly also onto third party POS terminal providers. GPUK considers this approach is much more likely to ensure widespread compliance with the requirement.

1.7.3 **Timing for implementation*:*** GPUK does not consider that the changes required by the remedies proposed can realistically be made within the timescale of 3 months. GPUK considers the PSR has seriously underestimated the time and effort that will be required to ensure compliance with the remedies proposed. Furthermore, GPUK is concerned that by imposing unreasonably short timescales, directed PSPs could be in breach of the directions from the outset. GPUK, as for all other directed PSPs, will need not only to design and build new solutions to meet the requirements of the Specific Directions, but must have sufficient time to test those new solutions to ensure that they work once implemented. Imposing timescales that do not allow for sufficient time for testing risk both compromising the effectiveness of the remedies and could have adverse consequences for merchants and the industry as a whole. The testing period is critical for ensuring the IT resilience of the solutions developed. GPUK would urge the PSR not to focus on speed at the expense of quality. GPUK considers a period of 12 months is more realistic and would ask the PSR to extend the deadlines accordingly;

1.7.4 **Monitoring and reporting*:*** GPUK has concerns that if not approached in the right way, the obligations to assist the PSR with monitoring and compliance could impose a disproportionate burden on the 14 directed PSPs, thereby putting them at a competitive disadvantage;

1.7.5 **Future proofing / fit for purpose:** GPUK recognises that the PSR's Provisional Decision and draft remedies can only be based on the assessment of any competition issues in a market in the forms they take at the time of the investigation; and the remedies proposed can only be targeted at those problems. However, it is critical that the PSR takes into account the experience in this market, and that business models and practices, the market participants and their roles and the products and services they offer, evolve and change at a rapid rate. There is a real risk that the PSR in relying on existing powers that allow one-off interventions may target concerns they see today but that may change quickly, meaning that the interventions become unfit for purpose in a short period of time.

1.7.6 **Periods for review of the scope of the Specific Directions:** GPUK notes that the PSR has proposed to review the Specific Directions 3 and 5 years after the date on which they come into force (or at any other time). GPUK notes that this provision relates to a review of the Specific Directions generally, and not specifically to the list of directed PSPs. Given the pace of change in the market, GPUK would urge the PSR to carry out its reviews of the Specific Directions sooner, with the suggestion for this to be annually to ensure that the Specific Directions are effective and fit for purpose. GPUK considers that a shorter period of review is also necessary given that the time it would take for any new PSP to comply with the Specific Directions is, in GPUK's view, likely to be no less than 12 months (see further comments below on this point). If the PSR waits until 3 years to first review the Specific Directions, this would mean in practice that no real change would occur until 4 years after the date of implementation by which time the market may have tipped significantly in favour of those providers outside the remit of the Specific Directions.

1.7.7 GPUK notes that the Specific Directions themselves are silent on the point of reviewing the list of directed PSPs specifically and that the PSR comments only in the Provisional Decision that it will keep companies directed under review. GPUK would suggest that, should the PSR continue with its approach of adopting specific rather than general directions, the PSR should carry out a separate review to the general review of the Specific Directions, of the parties identified as directed PSPs to ensure that the list can be maintained on a dynamic basis to reflect market changes as they develop. In the light of the speed at which market participants evolve, including the advent of new entrants, GPUK suggests that the PSR should review the list after 6 months from the date on which the Specific Directions come into force, and every 6 months thereafter.

1.7.8 The need for more frequent reviews would be alleviated were the PSR to adopt general directions rather than specific directions, as advocated by GPUK.

1.8 GPUK has provided further comments on some of these key points as well as specific comments on the DRAFT Specific Directions in the remainder of this response**.**

1.9 With regard to any future studies commissioned by the PSR related to the remedies proposed, GPUK would request to be included and consulted in the process. GPUK would also encourage the PSR to continue to consult with the full range of stakeholders within the payments ecosystem prior to trialling, concluding on or imposing any remedies, so as to assist the PSR in understanding the full impact of such remedies and whether they can be achieved, and at what cost / benefit.

2. Scope of the proposed remedies

2.1 GPUK does not agree with the PSR's proposed approach to address the Specific Directions to only 14 directed PSPs.

2.2 Basing a list of 14 specified PSPs on a backwards looking assessment of the volumes and value of transactions processed and the numbers of small and medium sized customers served by a given provider fails to take account of changes over time, including in the short, medium and long term. Further, this does not allow for shifting dynamics where any one or more of those PSPs over a short period of time may see a material change in their size, business role or functions such that they would no longer be considered a suitable target for the Specific Directions or conversely that any new entrant should not rightly be considered to fall within scope and included in the list.

2.3 GPUK considers that the scope of the proposed remedies should be extended by removing a specific list and instead addressing the three remedies to all market participants through General Directions. GPUK consider that this would:

2.3.1 protect merchants at risk from all market players;

2.3.2 ensure the burden of compliance is shared across the industry and does not fall unfairly and disproportionately exclusively on a limited number of suppliers;

2.3.3 maintain a level playing field across all regulated entities, avoiding the costs of compliance over time putting those in scope at a competitive disadvantage;

2.3.4 capture future changes to the competitive landscape in the UK, ensuring that merchants are protected as the market develops;

2.3.5 minimise the risks of non-compliant behaviour growing outside of an artificially imposed regulatory permitter, for example, ISOs choosing to contract with "unregulated" PSPs outside of the named 14 to avoid the burden placed on them indirectly through proposed DRAFT Specific Direction X1.

2.4 By focussing the remedies on 14 providers only creates an unfair, two-tier regulatory approach, with those falling outside the additional regulatory burden escaping the additional costs and risks associated with the new rules, and having the ability to act freely without constraint in the way proposed by the remedies packaged. Card acquirers already bear much of the compliance burden for the sector, and this will only add to that burden, making it increasingly hard for acquirers to remain competitive against new, nimble, market entrants who in effect free ride off the acquirers.

2.5 GPUK also considers that narrowing the scope in particular of Specific Direction X1, risks causing confusion for merchants as they will have to navigate a multi-layered environment in which information intended to help inform their purchasing decisions is not readily available in comparable format across the market. Bringing all providers of card acquiring services in scope, at least of this direction, would ease searching and encourage switching across the market. Smaller merchants typically use ISOs and there is a risk that if ISOs migrate towards working with acquirers outside of the directed PSPs, the small merchants who the PSR seeks to protect, would not obtain any benefits from the remedies imposed. This would be an unwelcome and unintended consequence serving against the interests of small merchants.

2.6 GPUK considers there could be implications to the market should the PSR not include everyone in the Directions, which will encourage those firms outside of the Directions to continue with practices that the PSR themselves have identified as potentially harmful to merchants. Therefore it will not address the precise issues the PSR is trying to address, thereby exacerbating the problems identified by the PSR for a significant number of merchants.

2.7 GPUK notes the PSR's comment at paragraph 2.4 of its Provisional Decision that it "*it will keep the companies directed under review, and will consider extending the mandate through a general direction, or directions on the card schemes, if necessary"*.

2.8 GPUK fails to understand how it would be appropriate to extend the mandate to the card schemes. GPUK encourages the PSR to focus on the scheme and processing fees of the card schemes as part of its new market review to ensure that these are simplified, transparent and not exploitative. This market review would not seem to GPUK to be the right route through which to address these issues.

2.9 Furthermore, the comment at paragraph 2.4 of the Provisional Decision fails to consider the possibility of reducing the companies directed, or swapping in new players for those currently proposed. In the event that the PSR determines to proceed with Specific Directions, it should remain open to the PSR to change the list, and not merely extend it. As commented above, GPUK considers it critical that the PSR reviews the list of directed PSPs after 6 months, and 6 monthly thereafter to keep pace with changes in the market.

2.10 In addition, and as referred to at paragraph 1.7.6 GPUK considers that where the PSR decides to address the directions to a limited number of market participants only, more frequent reviews of the list should take place to ensure the list reflects shifting market dynamics. This would ensure the PSR can take corrective action within a reasonably shorter period of time to address changes that would require a change to the PSPs specified.

2.11 Finally, GPUK considers that such a narrowly focussed approach fails to address any market failings on a holistic basis. The PSR approached this market review by looking across the market widely. GPUK would therefore have expected the remedies to address the whole market. Furthermore, the PSR is under a statutory objective to promote effective competition in the markets for payment systems and services. By focussing only on part of the market, arguably the PSR is failing to meet this obligation.

2.12 Many of the issues set out above would, in GPUK's view, be addressed if the PSR chose to impose a general direction from the outset. GPUK would therefore urge the PSR to reconsider its approach.

3. Time scales for the proposed remedies

3.1 GPUK considers it is unrealistic for the PSR to assume that a period of 3 months is achievable in respect of implementing any of the DRAFT Specific Directions proposed. Imposing an unrealistically short timescale would severely impact and compromise the ability to test the solutions and ensure they are fit for purpose.

3.2 [redacted] GPUK would also suggest, given the uncertainties on timescales, that a periodic review is built in part way through the period to consult and agree on whether the timescale imposed remains viable or would need to be further extended. GPUK would emphasise the need to ensure sufficient time is permitted not only for the design and build of the solutions but for proper and thorough testing.

3.3 Examples of why GPUK considers an extended timeframe to be required include, but are not limited to the following reasons:

3.3.1 With regards to the Summary Box draft remedy, [redacted]

3.3.2 GPUK requires further information in order to complete its analysis and be able to build the technology needed to present the information specified in the summary box [redacted]

3.3.3 With regard to the Trigger Message draft remedy, [redacted]

3.3.4 With regards to the Online Quotation Tool draft remedy, as this is a newly proposed remedy further analysis is required to best understand how to deliver to the requirements and best meet customer needs. This is likely to take more than the 3 months proposed but GPUK believes it is achievable within a 12 month window.

3.4 GPUK would therefore ask the PSR to reconsider the proposed timeframe for implementation.

4. DRAFT Specific Direction X1 - Summary Boxes and the Online Quotation Tool

4.1 GPUK has a number of general and specific comments in relation to the approach proposed for the summary box remedy and some specific additional comments on the proposed Specific Direction X1. These are set out below.

General comments

4.2 GPUK broadly agrees it would be more efficient for the summary boxes to be provided to merchants as part of the monthly billing information and shown in the merchant's online account.

£50m threshold

4.3 GPUK considers there may be challenges as to how the £50m annual card turnover is intended to be measured and tracked, for example:

4.3.1 what is the reference period for "annual" turnover – is it to be taken as the 12 months immediately preceding the date on which the direction comes into force'?

4.3.2 how should a merchant's turnover be monitored over time or re-assessed annually? how does the PSR intend for specified PSPs to do this in practice?

4.3.3 does the obligation kick in at any point in time when a merchant's turnover falls below £50m in any 12-month period such that during a year merchants could move in and out of being in scope?

4.3.4 where a merchant's turnover at any point exceeds £50m over a period of 12 months does the summary box obligation cease with immediate effect or would it need to run on, for example to monitor whether the merchant's turnover dipped below the threshold within a short period of time?

4.3.5 does the threshold apply to the top-level merchant recorded in GPUK's system only?

Compliance by ISOs

4.4 GPUK is concerned as to how it can ensure full compliance by ISOs with the specific requirement for them to include an online quotation tool on their websites. ISOs are independent third parties and although GPUK has contractual arrangements in place with an ISO, this is subject to negotiation and GPUK cannot merely mandate new obligations into the contract to ensure compliance by the ISO with the remedy proposed. This puts GPUK at risk of breaching the specific direction in circumstances where the ability to remedy the breach is beyond its control. Furthermore, GPUK is not always party to some of the contractual agreements or terms offered by ISOs to merchants.

4.5 In addition, ensuring compliance by an ISO with this obligation may be complicated by the following factors:

4.5.1 an ISO will typically offer other services and be retained by more than one acquirer. This could become very confusing where one of their acquirers is a directed PSPS, but another is not. Where there is more than one acquirer who are directed PSP this would mean that the ISO would need to have multiple online quotation tools.

4.5.2 an ISO will typically bundle its pricing and so presenting information provided by a PSP for it to use in an online tool may have no bearing on how the ISO offers pricing to merchants – this could cause confusion and would require consideration as to wording used on the ISO's website.

4.6 For the reasons further explained below, GPUK considers it would be more effective for the directions to be addressed and applied directly to ISOs as only in this way would the PSR be in a position to ensure control over ISOs' compliance with the directions proposed. GPUK urges the PSR to adopt this approach.

4.7 Should the PSR decide to proceed with the Specific Directions without the obligations on ISOs being addressed directly to ISOs, GPUK would urge the PSR to make the obligation apply directly to the ISO community within the card acquiring market. If the PSR continues with the current directions, GPUK urges the PSR to make the obligation then subject to a reasonableness test rather than one of strict liability and ensure that any potential compliance failures should take account of the steps taken by the PSPs to ensure compliance and recognise that these third party entities are not under the direct control of the PSPs and therefore their ability to ensure compliance may be limited. In addition, any compliance failures attributed to a PSP for the actions or omissions of an ISO should recognise these limitations and steps taken by the PSP to ensure compliance by an ISO should be considered as mitigating factors.

Monitoring

4.8 With regard to monitoring, GPUK requests that the PSR sets out detailed guidance as to the monitoring and reporting requirements associated with the proposed remedies, so that the appropriate monitoring and reporting processes can be built and put in place at the same time as the remedies are being designed and then implemented. Furthermore, any such requirements should be easy to achieve and impose the minimum obligations needed to achieve the PSR's objectives.

4.9 This could include, for example, a template compliance statement specifying what elements GPUK would need to produce evidence for or what approach the PSR would take when asking for a directed PSP to report on compliance. Providing prior information and a template would also enable the PSR to gather this information more quickly.

4.10 GPUK would ask that the PSR scope these requirements fully with the industry first, so ensuring the requirements are achievable and proportional and that any framework to evaluate merchant and consumer outcomes must be clearly defined and consulted on. GPUK considers that proceeding without this initial scoping exercise and understanding of the requirements could make it difficult for it to provide the PSR with the required information, resulting in unintended compliance failures.

4.11 GPUK would also encourage the PSR to provide further information on how it intends to verify and monitor compliance by ISOs and how a directed PSP would be required / able to evidence steps taken to ensure, to the best of its ability, compliance by ISOs. For example, were the PSR to address the directions to ISOs directly as suggested, would the PSR additionally require an ISO to provide confirmation of its compliance directly to the PSR, or in the alternative to those directed PSPs with whom it contracts? Were the PSR to issue a general direction, an ISO could make a general statement of compliance.

Specific comments on DRAFT Specific Direction X1

4.12 As set out above, GPUK considers that this remedy should take the form of a general direction rather than as a specific direction. This means that the direction should not be addressed only to 14 specified PSPs.

4.13 Comments on particular paragraphs are set out below:

4.13.1 Paragraph 2.4 implies that the Specific Direction applies directly to any ISOs offering card-acquiring services provided by the directed PSPs and requires them to provide information to prospective customers through an online quotation tool. However, paragraph 1.6 states that the direction is addressed only to 14 specified PSPs. GPUK would ask the PSR to note that it may not be within its control contractually or otherwise to mandate to an ISO that it must provide information through an online quotation tool. It is disproportionate therefore to impose this as an absolute obligation on the directed PSPs. Rather, it would be more effective for the direction to be addressed directly to those ISOs and for the PSR to have the ability to enforce the direction on those ISOs in a way which in practice may not be possible for the directed PSPs.

4.13.2 Paragraph 3.3: as mentioned above, GPUK considers it would be helpful for the PSR to provide guidance on how merchants' annual card turnover should be measured and monitored for these purposes.

4.13.3 Paragraph 3.9: GPUK does not consider it proportionate or workable for the PSR to be able to amend the information to be included in a bespoke summary box or the form to be used merely on "*reasonable notice*"; what the PSR considers to be reasonable may not be the same as what a directed PSP considers to be reasonable. GPUK suggests that a reasonable compromise would be to add the following words after "reasonable notice" to say "which will be no less than 12 months in any event". This would provide some safeguard for a directed PSP to adapt its systems to meet any new requirements without fear of non-compliance where a change cannot be affected in a shorter period that the PSR alone considers to be reasonable.

4.13.4 Paragraph 3.11: GPUK understand this to mean that if a directed PSP only provides monthly billing information through a merchant portal that it is required only to display the bespoke summary box in a prominent place on the portal but that this does not trigger a new requirement to issue billing information separately if that is not currently provided.

4.13.5 Paragraph 3.15: GPUK does not consider it helpful or appropriate for a merchant to be asked to provide its "merchant category code". GPUK considers that many merchants will not have this information and that MCCs are numerous and old fashioned or odd in their naming conventions. GPUK considers there is also a potential risk of requiring the MCC as opposed to the merchant's sector as this could impact the quote offered online vs what GPUK would actually offer. An alternative approach would be to provide a drop-down menu to select from relevant sectors. This would provide a list that merchants would more readily recognise for themselves.

4.13.6 Paragraph 3.25: as set out above, GPUK is concerned that it may not have the power to ensure that the relevant ISO hosts on its website an online quotation tool as required at paragraphs 3.13. and 3.24. As the PSR will understand, an ISO is an independent third party. GPUK may not be able to negotiate this obligation in its contract with an ISO and has no other means of recourse to procure an ISOs compliance. It is unclear to GPUK what the PSR would expect the outcome to be should an existing ISO refuse to amend its agreement with GPUK to comply with the new Directions? If GPUK exited the contract with the ISO, this could lead to unintended consequences for those merchants associated with the ISO. GPUK would therefore recommend, as stated above, that the direction is addressed directly to ISOs that would fall in scope, and that this would be a more effective means by which the PSR could ensure compliance with the obligation over entities over which GPUK has no control.

4.13.7 Paragraph 3.26: It is unclear to GPUK why this paragraph refers to providing an ISO with reasonable notice for an amendment to a summary box when the obligations under the direction would appear to extend only to the online quotation tool. If that is the case, as GPUK understands it to be, the reference should be removed. Additionally, for the reasons set out above, and because an ISO will need enough time to affect any changes to the online quotation tool, GPUK would reiterate the need for a minimum period of notice to apply.

4.13.8 Paragraph 3.28: GPUK would encourage the PSR to publish guidance as alluded to here. GPUK considers that the explanatory notes currently provided are insufficient and that greater clarity and certainty is required on key aspects of the directions proposed. Further guidance will likely help to achieve faster and more consistent compliance.

4.13.9 Paragraph 3.29: GPUK would suggest that the words "as far as possible" included in paragraph 3.30 also be included in paragraph 3.29 so that it reads "A directed PSP must, **as far as possible** make a relevant ISO aware…."

4.13.10 Section 5 – see comments above on monitoring. The direction should be amended to reflect the timing of any compliance statements and reference to any template adopted. In addition, the references in paragraphs 5.2 and 5.4 should include wording to the effect that "such notice should be reasonable, and no less than 12 months".

4.13.11 Section 7: as set out above, and in circumstances where the PSR does not adopt a general direction, GPUK would advocate for a shorter period by when the PSR conducts its first review to ensure that the direction is still needed and / or that it is appropriately scoped to reflect current and ongoing changes to the competitive landscape.

4.14 Paragraph 4 of the Explanatory Note to Specific Direction X1 states that "*the expectation is that the indicative pricing (and non-price factors) will be reasonably proximate to what the provider may offer on a binding basis"*. GPUK has said throughout the PSR's process that pricing is not generic but bespoke to each merchant. While GPUK does see some benefit to merchants in providing a bespoke summary box, GPUK does not agree with the PSR's expectations as set out. GPUK considers therefore that while the information generated by way of an online tool may be broadly indicative, and comparable, it may not be reasonably proximate to what GPUK actually offers. The final price will depend on a range of other factors not captured by the tool. GPUK does not therefore agree with this sentence and is concerned that if monitoring against this metric is considered to be a measure of compliance, it will set up providers such as GPUK to fail. GPUK anticipates that actual prices individually quoted, assuming all else remains the same, including the sector tagged, are likely, on the whole, when individually negotiated and based on additional merchant specific information, to be lower than those generated by the online tool.

5. Annex 2 - Options 1 and 2 for content and format of summary boxes

5.1 GPUK has considered the two proposed summary box options 1 and 2. GPUK's preference is Option 1.

5.2 For Option 1, GPUK would nonetheless recommend providing additional clarification by way of the key to ensure information is provided on the same basis across the industry. 1.1 For example, guidance should be provided on the specific types of consumer domestic debit transactions captured for each of card present and card not present, given that some types of consumer domestic debit transactions are more expensive than others. (e.g. a Consumer

Domestic Unsecure MOTO transaction is more expensive than a Consumer Domestic Secure eCom transaction). More detail should be provided for PSPs to ensure that all PSPs in scope of the remedy capture and present the information on costs for accepting common individual card payments on the same basis.

5.3 Although GPUK favours the Option 1 summary box, GPUK considers that including the PSR's wording and logo at the top of the summary box will be confusing to merchants. Were the PSR to change its approach and adopt a general direction as advocated by GPUK, this type of statement would in any event become redundant.

5.4 GPUK's primary obligation to a merchant is to provide transparency on pricing. GPUK is concerned that adding this summary box to the front of an invoice may be confusing to a merchant and overall create a longer document for the merchant to review. GPUK considers there are two possible ways to address this concern:

5.4.1 In example one as set out by the PSR, one way would be to reduce the amount of information displayed at the top of the invoice to include only the information in the "About you" section and "Your costs for accepting common individual card payments" but excluding the "Example" and the other "Typical monthly charges".

5.4.2 an alternative approach would be not to display the summary box at the top of the invoice at all but rather to provide a link at the top of the invoice to the summary box which would then be accessed separately to the invoice itself.

5.4.3 in both options a merchant would be able to access all of the information contained in the summary box proposed at Option 1 but in a way that GPUK considers may reduce confusion for the merchant.

5.5 In addition, GPUK suggests that the PSR's statement at the top of the summary box is placed at the bottom of the invoice to avoid confusion and that the PSR's messaging is reduced to the following: "*You could use this information to compare offers with other providers by using their online quotation tool*. "

6. DRAFT Specific Direction X2 - contract Trigger Messages

General comments

6.1 GPUK would refer the PSR to its general comments made at paragraphs 4.2 – 4.11 on DRAFT Specific Direction X1 which apply equally to DRAFT Specific Direction X2.

Specific comments

6.2 Comments on particular paragraphs are set out below:

6.2.1 Paragraph 3.5. f. provides that the trigger message must explain that similar online quotation tools are available from other providers. Merchants would benefit from being able to compare quotes on a like for like basis across the whole market. The PSR will not achieve this degree of transparency and consistency unless it addresses the directions to the whole market and not only 14 directed PSPs.

7. Annex 2 – Options for content and format of trigger message

7.1 GPUK has considered the three alternatives proposed and has a preference for the third option. GPUK considers this option is the clearest of the three and makes it easy for the merchant to understand the message and would be the most effective at encouraging merchants to switch.

8. Annex 2 – DRAFT Specified Direction X3 - POS terminals and POS terminal lease contracts

General comments

8.1 GPUK is pleased that the PSR has acted on feedback provided in response to its final report and has not sought to impose a technical remedy.

8.2 GPUK would refer the PSR to its general comments made at paragraphs 4.2 – 4.11 on DRAFT Specific Direction X1 which apply equally to DRAFT Specific Direction X3.

GPUK agrees that this direction should apply to merchants with annual card turnover of up to £10 million.

Specific comments

8.3 Comments on particular paragraphs are set out below:

8.3.1 Paragraph 3.9: GPUK notes that where the directed PSP does not contract directly with a merchant for the provision of one or more POS terminals, the PSP must ensure that the relevant provider of such equipment complies with the requirements of the direction.

8.3.2 GPUK has the same concerns with regard to taking on an absolute obligation to ensure compliance by third party POS terminal providers as the concerns set out above with regard to taking on the burden of compliance for ISOs. GPUK would therefore urge the PSR to include additional language in paragraph 3.9 as follows: "the PSP **should use reasonable endeavours to ensure** that the relevant provider…." rather than "must ensure". These entities are independent third parties and as such not under the control of GPUK.

8.3.3 GPUK would urge the PSR to address this direction also to those third parties as a means of ensuring more effective compliance.

HMRC

From: [redacted]

Sent: 04 August 2022 14:49

To: cards@psr.org.uk

Subject:Consultation Response

**This email has come from an external source. BE CAREFUL of links and attachments and report

suspicious emails**

Good Afternoon,

Please accept my apologies for the delay in providing the consultation response.

I have conferred with other parts of government and can provide the following input to the consultation

regarding the provisional decision in relation to remedies for CAMR.

Although the Government Departments and their underlying bodies are not experiencing difficulties in

this area, we support the remedies proposed and recognise that they will:

- Improve transparency over pricing and service quality indicators
- Give merchants the information they need in an easy-to-use format to make decisions about

switching acquirer

- Encourage competition between acquirers
- Improve the ability for merchants to get value for money from their contracts
- Remove some of the barriers to switching acquirers

If you have any further questions or issue any other

Regards,

[redacted]

Lloyds Bank / Cardnet

LLOYDS BANK CARDNET

Response to the Payment Systems Regulator's card-acquiring market remedies provisional decision

Submission Date: 3rd August 2022

This response contains confidential information, in the nature of business secrets, the disclosure of which to third parties could damage Lloyds Bank Cardnet (Cardnet)'s commercial interests. [redacted]. Cardnet's consent should be obtained before any of the [redacted] information is disclosed to a third party (including in response to a FOIA request) or referenced by the Payment Systems Regulator (PSR) in any publication. The information is being provided to the PSR solely to respond to the PSR's consultation paper on remedies following the market review into card-acquiring services and should not be disseminated more widely within the PSR as is necessary for the purposes of the PSR's evaluation of its consultation.

EXECUTIVE SUMMARY AND GENERAL OBSERVATIONS

Lloyds Bank Cardnet (Cardnet) welcomes the opportunity to respond to the Payment Systems Regulator (PSR) card acquiring market remedies provisional decision paper following the PSR's initial Card Acquiring Market Review (Review) into the supply of card acquiring services.

At the outset, Cardnet would again confirm its strong support, as a matter of general principle, for there to be in place mechanisms to allow merchants to access the services which, on price and key delivery features, best meet their requirements. Cardnet therefore supports the general sentiment that is driving the PSR's consultation and consider it represents entirely the sort of issue that should be considered by the industry.

TIMELINES

Cardnet has strong concerns about the PSR's proposed 3-month timeline for implementation of the respective remedies. In particular, the 3-month timeline does not give adequate consideration to the changes required to develop new systems and processes to address the remedies. With this in mind, Cardnet foresees that it could take between 8 and 24 months to implement the PSR's proposed remedies, but without fully scoping out the remedies Cardnet is unable to confirm an exact timeline, or cost, for implementation until the final requirements are confirmed by the PSR.

ACQUIRERS IN SCOPE

As previously stated, Cardnet would note that equal treatment, effective monitoring, and the need to allow a level competitive playing field and drive holistic good merchant outcomes, requires that all participants in the card acquiring market are subject to the same regulation. This should include smaller and more 'fintech' type organisations together with ISOs and PSPs. However, the PSR's proposed remedies are specifically targeted at an extremely small minority of acquirers with the expectation that these acquirers will ostensibly 'police' all other parties that are part of the merchants' services eco-system.

Cardnet strongly feels that the remedies and regulation resulting from the Review needs to cover all participants within the eco-system, especially taking into account that the PSR's Provisional Decision document states, "in the card-acquiring market review, it was estimated that there were over 100 acquirers and over 60 ISOs in 2018". However, out of 100 acquirers, the PSR will only be imposing the remedies on a select 14. Accordingly, Cardnet would ask the PSR to reconsider its approach of proceeding by way of specific directions rather than a general direction.

Cardnet believes that there needs also to be PSR recognition, reflected in the proposed regulation/remedies, that merchants often have direct contracts with third parties (such as terminal providers, ISOs and PSPs), with no involvement from an acquirers' perspective. This poses real limitations on the extent to which acquirers can reasonably be expected to regulate and monitor these providers' compliance with the PSR proposed remedies.

MERCHANTS IN SCOPE

Across all responses Cardnet has opined that the scope of this Review, and any subsequent remedies, should be limited well below the £50m turnover point outlined by the PSR, and the respective £10 million threshold relating to the remedies associated with terminals.

Cardnet would also like to reiterate that since the PSR's work on this Review has commenced, the FCA has announced it will be introducing rules in respect of Consumer Duty with the intention of ensuring good outcomes to consumers including small businesses. Cardnet would therefore like to highlight again that the suggested scope and perimeter of this Review align with Consumer Duty in respect of small businesses.

SCHEME/PROCESSING FEES AND CROSS-BORDER INTERCHANGE FEES REVIEW

Cardnet would like to emphasise the point it made in its last response to the PSR's draft remedies that the complexity of scheme fees significantly impacts the ability to provide meaningful price comparisons (as indicated by the PSR as a possible remedy), particularly to small and medium sized merchants whose principal interest is simply in the overall cost of acquiring, rather than seeking to understand the individual components that make up this overall cost.

This is particularly relevant for those merchants above £100k card turnover where one fixed price (which lends itself to easy comparison) may not be the most suitable option and yet the alternative pricing structures contain inherent complexities.

Due to the continued evolvement of the highly complex pricing structure, and based on growing feedback from Cardnet merchants, [redacted]

This simple price point remains increasingly difficult for acquirers to calculate based on the multitude of card price points that the Schemes use in determining rates for different cards and transaction types. For example, Cardnet currently has scheme fee tables for Visa and Mastercard [redacted] and, in many cases, multiple rates being applied to a single transaction.

Whilst Cardnet welcomes the reviews that the PSR is conducting on "Scheme and processing fees" and "Cross-border interchange fees", Cardnet strongly believes that this should be completed before work begins on implementing the PSR's remedies. The PSR's review of scheme and interchange fees could significantly affect the merchant services industry's pricing structure and with this in mind, Cardnet is concerned that developments made in implementing the PSR's remedies may be superseded if the existing complex pricing structure is changed following the PSRs further investigations.

THE NEED FOR REMEDIES TO BE PROPORTIONATE

Cardnet welcomes the PSR's express recognition, per its statutory obligations, that any remedies taken forward must be proportionate, that is to say, they must go no further than is required to achieve the stated objective (namely, and in broad terms, measures to encourage merchants to search and switch between card acquirers).

ONLINE ACCOUNTS

The PSR mentions online accounts within the directions for some of the remedies. Cardnet would welcome further clarity on whether the PSR is looking to mandate online accounts for all merchants in scope. This point is highlighted as currently, not all Cardnet merchants have an online account through choice.

PROVISIONAL DECISION ON REMEDIES

1.0 Bespoke Summary Boxes and Online Quotation Tools

Whilst Cardnet is generally supportive of the addition of bespoke summary boxes outlined in the proposal, and the benefits this will bring to merchants, Cardnet is primarily concerned with the implementation cost and the very short proposed implementation timeline as stated above. With this in mind, Cardnet would be grateful if the PSR would reassess its proposed implementation timeline to accommodate the operational impact of the proposed remedies and in line with reasons detailed below.

The content of the proposed summary boxes contains a significant amount of information, necessitating IT changes across multiple systems from an acquirer perspective and to ensure detailed data can be calculated, extracted and mapped at merchant level from the platforms into the summary box output on billing statements. [redacted]

[redacted] we expect it could take anywhere between 8 and 24 months to build out bespoke summary boxes. [redacted]

With regards to Annex 2 and the Bespoke Summary Box options, Cardnet has reviewed the options for market testing. We prefer Option 1 as it is most informative and clear and will provide a useful summary to the merchant. Option 2 outlines a long list of charges, some of which may or may not be relevant, and may further confuse the merchant. Cardnet also believe that Option 2 will be far more difficult and costly to maintain given the granularity of the fees.

Regarding Option 1 Cardnet notes that currently only Consumer Domestic cards are outlined in the respective grey box in the middle of the exhibit. Given some merchants will only be commercial card focused, or accept both consumer and commercial cards, Cardnet believes this should be expanded to include both.

Another driver of acquiring cost which is not reflected is the acceptance of international versus intra versus domestic cards. Excluding this component may be misleading to some merchants, particularly those with a high proportion of acceptance of international cards, that will pay higher charges than are outlined. It also may incentivise some merchant service providers to present low headline rates, with add on fees that are not included as part of the summary boxes, something that would clearly defeat the PSR's intention of providing transparency to merchants. Such a scenario does raise the question of how the PSR will regulate all providers of merchant services, as opposed to the named acquirers in the Review, and ensure that the objective of Bespoke Summary Boxes is being appropriately offered to merchants. This again supports a remedial approach based on a general direction rather than specific directions.

With regards to the online quotation tool, Cardnet understands the rationale for wanting acquirers to offer online quotation tools to improve both price transparency and the ease of merchants being able to search and switch acquiring services. However, Cardnet is concerned that the full complexity of this remedy has not been fully considered and may actually have a negative effect on some merchants. To this point, Cardnet's prices are currently calculated in [redacted] This methodology allows merchants to receive fair prices which fully reflect their profiles.

While this model could be automated, Cardnet does not believe it will be suitable for merchant use, due to the number of inputs required. [redacted]. This will need to be included if Cardnet is to be able to work within other regulatory parameters as a bank (e.g. RoRWA%).

In order to accommodate the online quotation tool for all merchants in scope, [redacted] This would be a fundamental change to Cardnet's pricing approach, process and proposition, all of which have been developed to ensure merchants are treated appropriately and fairly regarding their pricing. Cardnet expects that other acquirers will also be reviewing their pricing approach if this remedy is adopted and assumes that a variety of different pricing models will emerge, further increasing variation and impacting on the ability of merchants to compare pricing across the sector.

The proposed online tool will need to be sophisticated enough to cope with four different acquiring pricing structures (MPOS single %, Blended, IC+ and IC++) and will need to be integrated, tested and protected to ensure that competitors are not able to gain access to tools to benchmark against tariffs and undercut pricing on individual deals.

On the quotations themselves, Cardnet suggests that a caveat is included to cover instances where a merchant's card acceptance profile, which is input to the quotation tool by the merchant, does not align with the merchant's actual card acceptance behaviour. In such an instance, the caveat will allow the acquirer the ability to adjust pricing thereafter based on a merchant's predicted profile being different to its actual.

In summary, and as the PSR acknowledges, the nature of scheme fees means that an acquirer's pricing model is highly dependent on a merchant's turnover and their respective card profile. Therefore, Cardnet needs to be able to retain the ability to reprice merchants who have not outlined their profile accurately. Given merchants will be able to obtain an offer digitally, Cardnet is concerned there will be instances where merchants manipulate the card profile to gain lower rates which will require monitoring and management. It is also important to note that the length of time online quotes are applicable should also be caveated.

As mentioned earlier, Cardnet highlight that the PSR's review of "Scheme and processing fees" and "Cross-border interchange fees" could significantly affect the merchant services industry's pricing structure. Therefore, Cardnet believe these reviews should be completed before work begins on implementing the PSR's remedies on summary boxes and online quotation tools.

Cardnet remains concerned that, where only a limited number of firms are required to implement the PSR's remedies, merchants could be exposed to parties outside of the remedies scope, offering headline pricing rates which do not reflect the reality of the price in practice. Again, this supports issuing a general direction.

Cardnet observes that some of the card schemes also operate membership programs with very specific requirements as to which merchants are offered e.g. Me2Me, Everyday Spend, Merchant Performance, etc. Based on these different programs, and in the context of the PSR's Review, it is unclear how and if these programs can be incorporated into either the bespoke summary boxes or the online quotation tool.

Cardnet believes the proposed application of these tools for merchants with card turnover between £10-£50m will be counterproductive. In Cardnet's experience, the majority of merchants in this turnover band are experienced in procuring acquiring services and will wish to negotiate, rendering the online quotations unhelpful. Higher acquiring rates will inevitably be supplied to these merchants using the online tool because not enough detail at individual card level is provided for a true bespoke offering. Many of these merchants are looking for a far more integrated offering than just acquiring services (e.g. a payment gateway) [redacted] Allowing these merchants to seek prices online for acquiring may discourage them from engaging with Cardnet to discuss options which may disadvantage them or provide them with suboptimal solutions. For example, a merchant may not seek information on which acquiring pricing structure to apply and just look for the cheapest price without understanding how this will be integrated within their business.

Finally, Cardnet remains concerned about the cost and implementation timeline of creating and maintaining an online quotation tool. Three months is not enough time to get the respective tools developed and implemented. In Cardnet's view, a project of this significance will take up to 24 months to complete.

2.0 Trigger Messages

Cardnet believes trigger messages could usefully be offered across the industry. [redacted]

Cardnet therefore considers the introduction of a standard, pan-industry requirement to issue trigger messages is the sort of proportionate and effective remedy that the PSR should be considering for the industry to address the PSR's feature of concern.

Whilst Cardnet is supportive of trigger messages and the benefits they will bring to merchants, Cardnet is primarily concerned with the associated cost and the exceptionally short proposed implementation timeline.

Given this, Cardnet would ask the PSR to reassess its proposed implementation timeline. [redacted]

Irrespective of this, and in Cardnet's experience of deploying large scale projects, this initiative could take up to 24 months to implement.

[redacted] Cardnet has concerns about the amount of information that will need to be included in a merchant's monthly statement as this would substantially increase the size and arguably become confusing for merchants. With this in mind, Cardnet assumes that the PSR will give careful consideration regarding the content of the trigger message, something Cardnet would be happy to support the PSR with.

3.0 POS Devices

Cardnet refers the fulfilment and servicing of its POS Terminals (terminals) to third parties who have the contractual relationship with those merchants.

Over the next 5 years, Cardnet expects the current industry trend of lower card turnover merchant's needs being met by simple, low cost or pay as you go (PAYG) solutions to continue. Indeed, Cardnet also expects that software-only solutions will become increasingly popular, with merchant needs being met with Apps, Soft POS, Pay by Link, QR Codes and Virtual Terminals, bypassing the need for traditional terminal hardware and associated contracts. Furthermore, recent announcements by Apple will likely lead to further innovation and remove legacy barriers to taking card payments. This industry dynamic is welcomed by Cardnet as it will make the switching of acquirer easier for merchants. [redacted]

Cardnet would also like to note that in practice, it is increasingly common for acquirers to cover switching costs (including termination fees) and the PSR itself notes in its consultation the commercial benefit to merchants that flow from the general/current approach in the industry.

While Cardnet welcome the lowering of the threshold to £10 million for the PSR's proposed remedy, regarding terminal leases, Cardnet strongly believes this still needs to be significantly lower and arguably in line with that set out in the Consumer Duty rules. Cardnet is also concerned of the practical implications of operating effectively a 'two-tiered' lease process.

With this in mind, Cardnet seeks clarity on how the PSR expects the £10m threshold to be managed as some merchants may find themselves with a card turnover of £12m at the time of boarding and therefore be offered a 24-month contract, but be non-compliant the year after if they only have a card turnover of £9m. Cardnet assumes that new journeys, processes and controls would need to be in place, under the guidance of the PSR, in order to ensure merchants under £10m are only offered 18-month contracts, whilst merchants over £10m could be offered a wider choice.

Cardnet also seeks clarity in relation to an existing relevant merchant contract whereby the PSR states it is looking for the contract to be a maximum 1-month recurring contract. Cardnet would like to understand if the PSR expects the terminal lease providers to issue new contracts for all existing merchants changing their (if applicable) 3 months' notice to one month notice.

Cardnet would reiterate that there needs also to be PSR recognition, reflected in the proposed regulation/remedies, that merchants often have direct contracts with terminal providers with no involvement from a Cardnet perspective. This poses real limitations on the extent to which Cardnet can reasonably be expected to 'regulate' and monitor these providers' compliance with the PSR proposed remedies.

Finally, and as highlighted in relation to the PSR's proposed remedies throughout this response, the PSR's suggested implementation timeline of 3 months is unachievable. Cardnet will need to allow enough time for leasing partners to develop new propositions, share them for approval and then these need to be implemented into Cardnet's boarding systems, sales scripts etc. Cardnet will also need to invest time and cost in drawing up new contracts with terminal leasing providers to ensure the new ways of working are adhered to. Cardnet expects this entire process could take up to 24 months to complete.

Mastercard

CONSULTATION PAPER RESPONSE

Mastercard response to PSR *'Card-acquiring market remedies - Provisional decision '* Consultation paper

10 AUGUST 2022

Introduction

As the PSR will be aware, Mastercard has been closely engaged with the card-acquiring market review from the outset. That is because Mastercard supports effective competition in the card-acquiring market, which we believe delivers better outcomes for the entire ecosystem.

Mastercard's own business benefits directly from increased levels of competition in payments, whether that is between payments systems, issuers, acquirers, merchants or the many other participants in the value chain. That is because Mastercard's commercial success is driven by the greater adoption and use of the wide range of digital payment products and services which we offer. Competition drives that adoption, because it increases the availability of digital payments, but also delivers an improved payment experience for both payers and payees, combined with constantly evolving value-added services.

Effective competition between acquirers in particular, will lead to better price and service outcomes for merchants and an increased likelihood that they will accept and prefer digital payments. In order to win and retain merchant customers, competition will encourage acquirers to innovate and invest, including in relation to the services which Mastercard offers and acquirers have a choice as to whether to adopt. The payments ecosystem, of which Mastercard is a part, benefits from the virtuous circle of innovation and investment, improved value/service and greater adoption.

Whilst supporting enhanced competition as a matter of principle, Mastercard has made no judgement as to the effectiveness of existing competition between acquirers and specifically as to the value and service which they deliver to different categories of merchants. Mastercard has no evidence to indicate whether or not merchants are getting a 'good deal' from their acquirers, but we have been interested in the evidence which the PSR has presented throughout the review.

Throughout the card-acquiring market review, Mastercard has been supportive of the PSR's objective to enhance acquirer competition and we welcome any remedies which would be effective in doing so. We have not sought to comment on proposed remedies which do not directly impact Mastercard, as those issues are better dealt with by the acquirers. However, the PSR's proposal for a 'summary box' does affect (and concern) us because of the manner in which it proposes to communicate Mastercard's fees. Therefore, the comments set out below, relate only to this proposed remedy. We believe that current design of the summary box is unlikely to result in an effective remedy and that the way the PSR has tested the remedy is not in line with good practice.

Comments on Bespoke Summary Boxes

As outlined above, in principle, Mastercard supports any remedies which will maximise the effectiveness of competition between acquirers. We recognise that bespoke summary boxes may have an important role to play in that regard, by providing both price and non-price comparable information to merchants.

Card-acquiring should not be seen as a commodity or utility service and therefore the inclusion of non-price information is important. If card-acquiring competition focuses only on price, it will likely reduce acquirers' ability and incentive to innovate and invest in improved service quality. Ultimately, that will be to the detriment of their merchant customers and the payments ecosystem more broadly. Although Mastercard believes that the inclusion of non-price information is important, it an issue which the acquirers are best placed to address. The remainder of Mastercard's comments therefore relate only to price information.

Mastercard is concerned about the approach to providing price information proposed by the PSR, both in terms of design of the summary box and the process which the PSR has adopted in designing it. We address each in turn.

Summary Box design

The objective of the summary box is to facilitate merchants shopping around and acquirer comparisons. This can be separated into two parts. Firstly, it must encourage and incentivise a merchant to begin the process of shopping around. Secondly, it must actually enable a comparison to be made.

The PSR's own evidence[1] demonstrates that a significant proportion of smaller merchants (between 37% and 44%) have not even considered switching acquirers. Typically, this was because they were satisfied with their current provider. Of those who did consider switching, 30% did not actually shop around for providers, suggesting that many of those who reported that they had considered switching, may have done so only to a very limited extent and in fact took no positive steps in the process.

The PSR must therefore address the significant challenge of how to incentivise smaller merchants to consider switching and then begin the process of shopping around. Mastercard understands that the PSR views the trigger messages as an important remedy in that regard, but the bespoke summary box also has a critical role to play, as it is the key information on which the acquirer will be most focussed, most often.

Acquirer or Scheme comparison

The PSR may be of the view that the trigger message will be sufficient to incentivise merchants to consider shopping around and that the purpose of the summary box is only to improve merchants' ability to search and switch between providers of card-acquiring services. This might mean that the purpose of presenting the combined total acceptance cost (rather than for example the interchange fee or acquiring fee), is to keep it simple for merchants and to allow them to focus on one total price. However, the PSR has made certain assumptions about merchants' behaviour and their decision-making process which have not been tested.

We believe that the summary box is unlikely to achieve the PSR's overall objective in its currently proposed form. This is because, the proposed design of the summary box is likely to be viewed by merchants primarily as a comparison between Mastercard and Visa, rather than between acquirers. In the example included in option 1, merchants may be likely to conclude that Mastercard and Visa will themselves receive the percentage of the value of the transaction included in the table. Of course, this would be both inaccurate and misleading because the fees set and collected by Mastercard and Visa are the smallest proportion of the total cost of acceptance shown on the table. The PSR's own evidence in this market review confirms that scheme/switch fees are significantly smaller than interchange and acquirer fees for transactions of this kind.

[1] PSR Card-Acquiring Market Review: Merchant survey results. September 2020

More importantly, however, such a misunderstanding may fundamentally disincentivise a merchant from shopping around. If it believes that the transaction percentages shown on the table are paid to Mastercard and Visa (confirming perhaps merchants' existing (mis)understandings), it will also conclude that those percentage costs will therefore be the same with any acquirer and so there is no reason to take steps to investigate alternative acquirers make a comparison. At best, the merchant might conclude that some of the other fees shown on the table are those which are received by the acquirer but if it decides that they are immaterial, it may again further disincentivise the merchant from shopping around.

In order to achieve the PSR's objective of incentivising merchants to compare acquirer pricing, the PSR must re-design the summary box to highlight the differentiated costs much more clearly. The most obvious means to do so is by reference to requirements of Article 12 of the Interchange Fee Regulation, which requires the interchange fee be separated from the other parts of the MSC. As the PSR's objective is to encourage merchants to compare acquirers, the acquirer fee must be listed separately from the other fees.

In that way, the merchant would most easily be able to understand which part of the acceptance cost will vary between acquirers and which part will remain the same, which is the crucial element in determining if it is worthwhile spending time shopping around. This will meet both of the objectives highlighted above i.e. to incentivise a merchant to shop around and actually enable a comparison to be made.

At the very least, the PSR must ensure that the design and description of the summary box makes absolutely clear that the transaction percentages included in the tables are the percentages set by the acquirer for acceptance of the transaction (which in turn, reflect a number of different components), not the fees set and received by Mastercard/Visa for accepting the transaction. If that point is not effectively addressed, it is unlikely that the summary box will fulfil any useful purpose because merchants will not have understood the key pricing information.

Acquirer approaches to pricing

The PSR should also consider how well its proposed summary box aligns with how acquirers currently price and whether it creates any perverse incentives.

It is unclear how acquirers are expected to present pricing information where transaction fees are blended, which may occur across any combination of debit/credit, card present/card not present, Mastercard/Visa, or all of these. For example, a blended "all Mastercard transactions rate" may be higher than a blended "all Visa transactions rate" because Mastercard has a much lower proportion of debit card transactions, which attract a lower interchange rate and a higher proportion of credit card transactions and therefore cross-border transactions, which attract a higher interchange rate. This may make 'Mastercard' appear as more expensive than 'Visa' even though the differential is driven purely by the transaction mix and blend, rather than the level of fees which Mastercard charges.

A different problem might arise where blending occurs with alternative card schemes such Amex, the absence of which from the summary box is an additional concern, addressed in further detail below. The requirement to provide pricing information in the prescribed form, but with the possibility to blend fees might lead to outcomes which the PSR had not intended and are not in the interests of fair competition.

In addition, there may be a risk that acquirers attempt to exploit the Mastercard versus Visa comparison in order to divert attention from their own margins or take the opportunity to present information in a manner in which the PSR had not intended. The draft Specific Direction states at paragraph 3.9 that:-

> *"A directed PSP may provide additional information to merchants but it must do this separately from the bespoke summary box"*

Mastercard believes that this 'requirement' is insufficiently precise both in terms of what is meant by "*additional information*" i.e. is there any restriction on what type of additional pricing information acquirers can provide, as well as what is meant by "*separately*" i.e. is there anything to prevent the acquirer from providing additional information, immediately alongside the summary box, even if not part of it. It is important for the PSR properly to consider these issues, in order to ensure that summary box has its intended effect and cannot be misrepresented.

Scheme inclusion

The PSR's proposed summary boxes only include the acquirer's fees for Mastercard and Visa transactions. However, the PSR's own survey evidence demonstrates why this is not a rational approach because acceptance of other card schemes is widespread. Specifically, in early 2020 American Express was accepted by 60% of merchants, JCB was accepted by 25% of merchants, Diners Club was accepted by 19% of merchants and Union Pay was accepted by 12% of merchants.

This data not only showed a fairly high level of acceptance of these card schemes 2 to 3 years ago, but also that there was room for further growth and that increased acceptance in the future is highly likely. In particular, in 2018 Union Pay announced a major expansion into Europe with the UK as its focus[2]. Its ambitions are not merely to increase acceptance of Union Pay by UK merchants for Chinese travellers, but also to issue cards domestically in the UK, as a direct competitor to Mastercard and Visa. Union Pay's investment and expansion in the UK has continued[3], as a result of which its acceptance level amongst UK merchants is almost certainly now significantly higher than the PSR's survey evidence of 2020 suggests.

Furthermore, Mastercard understands (and the PSR appears to acknowledge) that the fees charged for acceptance of these alternative card systems are typically higher than those of Mastercard/Visa. This might also suggest that the total acquirer margin on these transactions is also higher (if the percentage applied is similar to that for Mastercard and Visa transactions). Either way, it's obviously highly relevant for merchants to understand where acceptance of these alternative schemes is significant and growing – the greater the degree of variation in the information provided, the greater the chances of incentivising shopping around.

Indeed, in option 1, the '*About your service*' box lists Visa, Mastercard and Amex as '*payment brands accepted*', but only includes the charges for Visa and Mastercard combined with an oblique footnote stating "*You may also accept significant numbers of other card types including business cards and international cards which may cost more to accept*". Even if it is noticed, this reference to '*international cards*' is likely to contribute little, if anything, to the merchant's understanding or to fulfilling the PSR's objective to incentivise shopping around.

[2] www.paymentscardsandmobile.com/china-unionpay-eyes-major-european-expansion-with-uk-launch/
[3] www.finextra.com/pressarticle/77498/barclaycard-and-china-unionpay-ink-uk-card-acceptance-partnership

We note that acquirers themselves do include other providers such as American Express, Diners and Union Pay in their fee guidance publications and some of them also include non-card payment methods. In other words, the PSR's summary box seems to be more restrictive than acquirers' own current practice. It appears as if the PSR believes that the market consists only of Mastercard and Visa and is now imposing this incorrect and narrow view on merchants. As a result, rather than actually imposing remedies that facilitate competition, the PSR is imposing its own (mistaken) narrow view on small merchants, potentially reinforcing existing incorrect perceptions amongst them.

Market Testing

The PSR has spent several years examining the card-acquiring market in order to determine the effectiveness of competition and how it might be improved. That has led to the conclusion that amongst smaller merchants, there is insufficient shopping around/switching and that the PSR should impose remedies to address that problem.

The correct choice and design of those remedies is, of course, crucial. The lengthy market review will have served no useful purpose, if the chosen remedies are not effective and specifically, if they do not incentivise and enable smaller merchants to consider alternative acquirers.

In the previous section, Mastercard has outlined its views as to how we believe merchants may interpret and respond to the PSR's proposed summary box. These views are based on Mastercard's significant experience of managing card fee issues and conversations with a variety of merchants over many years – they may or may not align with the views of the PSR and others. For that reason, the PSR should properly be market testing this remedy, which would involve testing not only merchants views as to the summary box design, but also how they respond to it.

However, the PSR's approach to market-testing appears to be limited. It states:-

> *"We have commissioned research to test design options for summary boxes, and this will take account of design proposals we have received from stakeholders."*

From this statement and the PSR's presentation in July[4], we understand that the PSR is intending to use a market research company to present its summary box options to a sample group of merchants and ask for their opinion e.g. in relation to the clarity, completeness and usefulness of the proposed options. They express views as to how the summary box design might be improved, but if this is done in focus groups, those views may or may not be representative of the wider population of small merchants.

Furthermore, although this form of market research can be useful to obtain initial views on the design of the remedy, it is good practice properly to test the effectiveness of informational remedies such as summary boxes by, for example, **running experiments to test participants' understanding and perceptions of the information provided, as well as to test what actions, if any, participants would consider taking afterwards** We note that the relevant teams at the FCA have conducted and commissioned such experiments to inform the design of remedies and

[4] And the PSR slides 'Card-acquiring Market Review Provisional Decision Workshop, PSR OFFICIAL, July 2022

effective communication; this has become good practice. We note also, with concern, that we have not seen any indication that the PSR intends to conduct such research and experiments in this case, which may well mean that the remedy is less effective than would otherwise be the case.

Whilst recognising the PSR's understandable determination to conclude the market review as soon as reasonably possible, Mastercard is concerned that an undue focus on the timescale is significantly compromising the PSR's approach to market testing. In short, the PSR is not allowing sufficient time, adequately to design and test the remedies, which (from Mastercard's perspective) relates specifically to the design of the summary box. That risks imposing a remedy which is, at best, ineffective and wasteful of resources and at worst leads to misunderstandings or perverse incentives and outcomes.

Aside from the specifics of this market review, the PSR must accept and acknowledge the principle of properly testing any remedy which it proposes to implement, particularly where it is impossible to know in advance exactly how the market will react. The PSR must allow whatever time and resources are necessary to do so to the requisite standard. The alternative risks creating detrimental impacts in the market for many years to come.

All queries in relation to this response should be to [redacted]

Merchant Hub

MERCHANTHUB

Merchant Hub is Your Partner to Grow Revenues and Develop Customer Relationships with the Newest Payment Technologies

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact on the industry and severely hamper merchant service providers' ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

I would strongly recommend that you put your magnifiers on the inter-operability of the card payment hardware offered to clients, rather than completely taking away the service providers' ability to finance the card payment hardware. Forcing the card acquirers' (and ISOs') hands to enable their card payment hardware to work with all processors in the UK <u>will</u> resolve majority of the so-called problems arising from card payment hardware agreement term.

Alternatively, you can, for example, propose a careful incision by creating a meaningful framework for instances where card payment hardware financing becomes a necessity (for example, businesses that require over 20 card payment terminals and <u>ePOS stations</u>) . With a limited 18 month card payment hardware financing term , the card processor will have a serious challenge purchasing, for example, 180 integrated Verifone P400 terminals for a large retail chain. Thanks to your proposed measure, this card processor will have no option but to borrow (to purchase these terminals & stations) , or apply higher card processing margins to the end-user for a meaningful ROI. However, if the card processor can finance these agnostic terminals on a 36 months term while giving the freedom to the end-user to inject their merchant identifier of choice (if and when the end-user wishes to change processors), the card payment hardware agreement term , actually, comes forward as a problem-solver, not a problem maker.

Please feel free to reach out to me directly should you wish to discuss my points

Yours faithfully

[redacted]

[redacted]

Mobile Pay

DOCUMENT #655364

THIS DOCUMENT IS PROVIDED TO YOU IN CONFIDENTIALITY AND MUST NOT BE SHARED ANYWHERE.

Mobile Pay Systems Ltd,
[redacted]

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

Yours faithfully

[redacted]

Many thanks.

Kind regards.

Nexo Standards

Payment Systems Regulator
12 Endeavour Square
London E20 1JN

August 10th, 2022

Attn: Card-acquiring market review team

Regarding: PSR Card-acquiring market review remedies provisional decision

Thank you for the opportunity to comment on the card-acquiring market remedies provisional decision. As a not-for-profit, open organization committed to enabling global interoperability in payments acceptance, nexo standards welcomes PSR's initiative and supports efforts to increase innovation, transparency, and information sharing across the entire payments ecosystem.

Like PSR, we believe that the payments acceptance world faces several challenges. Much of the work we do at nexo standards seeks to address some of the issues underlying one of the features of concern and potential remedies addressed by the PSR in its Consultation Paper on Card-acquiring market remedies:

> **Feature of concern:**
>
> *POS terminals and POS terminal contracts can prevent or discourage merchants from searching and switching provider of card-acquiring services*
>
> **Potential remedy:**
>
> *Addressing barriers to switching between card-acquiring services which arise from POS terminal leases.*

At nexo standards, we believe that standardization plays a key role in addressing barriers and increasing transparency in the payments ecosystem. We develop and offer a portfolio of specifications and messaging protocols that standardize and harmonize the exchange of acceptance data for all payments stakeholders and offer a universally beneficial way to apply ISO 20022.

Solving payments challenges through standardization

Too often, a merchant will not be able to use its existing POS terminal when it starts working with a new card-acquirer. If the merchant decides to switch providers for card-acquiring services, it will likely need to lease a new POS terminal and to cancel its existing POS terminal contract.

How should these barriers be addressed? From our point of view, these challenges can be solved by standardization.

nexo standards is a collaborative ecosystem that works with all the payment stakeholders, including Card Schemes, Acceptors (Retailers), PSPs, Processors and Vendors. We don't limit the scope of our work to card schemes or vendors. Instead, we collaborate with the whole ecosystem to create compelling propositions for all players in the payments acceptance value chain. Each party has equal value in nexo standards, and we truly value the input of and represent all stakeholders in payments acceptance.

This is why we believe our nexo FAST specification and our protocols for Acquirers, Retailers and TMS answer the market challenges. nexo FAST was designed as a multi-acquirer payment application. This means that a terminal running a nexo FAST application will be able to accept all payment cards, provided they are compliant with EMV specifications and since nexo FAST is protocol agnostic, it can be easily integrated with Acquirer, Retailer or TMS protocols to match market needs.

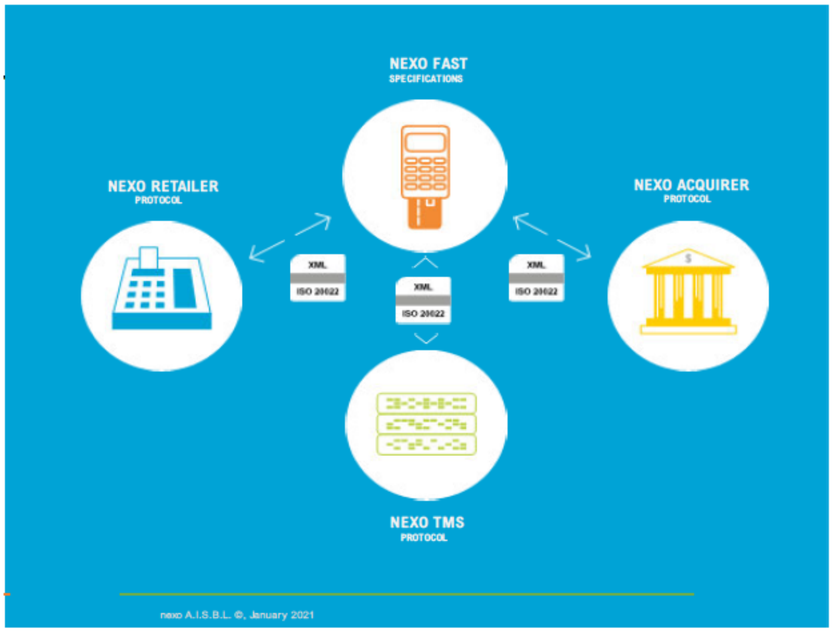
Similarly, since the nexo Acquirer protocol (connecting the terminal with the acquiring or processing host), the nexo Retailer protocol (connecting the cash register or sale system with the server-based or terminal-based payment application), and the nexo TMS protocol (allowing remote management of the payment application parameters and POI in the field) were developed by active participants in the ecosystem, they address the challenges faced by each stakeholder group.

These specifications and protocols work together to remove complexity, reduce fragmentation and establish a truly harmonized and standardized market. This enables fast, interoperable, borderless and global payments acceptance of data between merchants, acquirers, payment service providers and other payment stakeholders.

POS standardization for potential remedies

In an all-too-common scenario, merchants face POS vendor lock-in that makes it nearly impossible to add new payment acceptance schemes or payment methods to their POS, let alone quickly deploy new devices to support customer needs.

To solve for this challenge the nexo FAST payment application specification based on EMV® Chip and PIN technology provides the ability to develop a payment application supporting multiple international or regional schemes on a single POS. This enables retailers to avoid vendor lock-in and promotes a 'level playing field' for payment acceptance vendors to compete on equal terms. It also supports a "worry free" multi-vendor environment for retailers thanks to ISO international standards support.



The nexo FAST specification and protocols enable PSPs and Acquirers to easily build payment applications that can be imported into many POS devices, giving merchants more flexibility and choices and preventing lock-in.

Our set of messaging protocols include more than 75 ISO 20022-compliant messages. Security is baked into the protocol messages from the start of development, allowing the authentication of the initiator and the protection of the content of part or all of the body against any unauthorized alteration or capture of the transaction message.

Standardization benefits all stakeholders across the payments ecosystem

The inherent flexibility of the ISO 20022 standards, and its availability to all for free, makes nexo standards stand out from other standards. The design of nexo standards allows interoperability between different implementations and expansion to support value added services, including:

- **Opening vendor competition**

The growth and ongoing maturity of the nexo specifications and protocols enables retailers to mandate the use of nexo in solutions. This gives the power back to retailers and enables one integration that can support multiple vendors and multiple countries. A nexo-compliant industry enables retailers to negotiate better deals, avoid vendor lock-in and promotes a 'level playing field' for all payment stakeholders.

- **Cross-border acceptance**

Uniquely, nexo's specifications and protocols enable multinational retailers to implement a fully interoperable cross-border payment acceptance infrastructure.

- **Standardization**

The nexo protocols and specifications enable retailers to apply the same standards-based approach seamlessly and cost-effectively to payments as they need to in other areas of the business (stock management, IT, business strategy). ISO 20022 and standardization can provide retailers with additional strategic value such as e-invoicing and billing, integrating ISO 20022 payment with financial institutions.

- **Cost saving and freeing up resource**

Standardizing the exchange of payment acceptance data will hugely simplify the job of introducing new and innovative payment solutions at scale, significantly reduce cost, increase operational efficiency and free up resources.

- **Partner assurance: Simple and fast partner integration**

nexo's protocols facilitate fast, simple and borderless integration with other nexo-compliant payments stakeholders, reducing time-to-market and increasing confidence in new partnerships with acquirers and terminal manufacturers, for example.

- **Pure interoperability and harmonization**

nexo enables a true "plug and play" approach to payment acceptance. All nexo compliant systems speak the same language of interoperability.

- **Support for innovation**

Once implemented, the efficiency of nexo's protocols release internal resources previously dedicated to payments 'firefighting'. These can be redirected to focus on development and delivery of new innovative payment services that increase customer engagement and brand equity (mobile payments services, value added services). The rollout and maintenance of these services are then fast, efficient and borderless.

- **Consistent UX**

nexo's protocols and specifications enable a consistent user experience at the point of interaction between multiple payment types, delivering a fast and familiar payment service to customers.

- **Speeding up innovation deployment**

Protocols allow easy integration of innovative new products and services, reducing time-to-market and lowering integration and deployment costs.

- **Vendor agnosticism**

A nexo-compliant industry enables retailers to avoid vendor lock-in and promotes a 'level playing field' for payment acceptance vendors to compete on equal terms. This also supports a "worry free" multi-vendor environment for retailers thanks to ISO international standards support.

Implementations and deployments

Since the inception of nexo standards in 2014, we have grown from an industry initiative comprised primarily of few European stakeholders into a global organization with members from Europe, Canada, China, Hong Kong, India, Japan, Morocco, Russia, Saudi Arabia, Singapore, Switzerland, Taiwan, USA and the United Kingdom

nexo standards-based solutions are deployed in **30+** countries across APAC, Europe, the Middle East and North America, and download data indicating usage in South America. In 2021, [redacted] new accounts were created, and [redacted] standards with protocols documents were downloaded by vendors [redacted]), card schemes [redacted]), acceptors/retailers [redacted], PSPs ([redacted]) and processors [redacted].

Our membership has expanded to **98** members total:

- 6 Acceptors
- 16 PSPs
- 10 Processers
- 55 Vendors
- 11 Card Schemes

Next steps

In light of our mutual goal of increasing transparency and innovation, nexo standards requests the opportunity to meet with the PSR to discuss how our organizations can collaborate to serve all stakeholders across the entire payments ecosystem.

Thank you for the opportunity to share our perspective.

Respectfully submitted,

[redacted]

nexo standards Secretary-General

APPENDIX

Our 98 nexo standards' members listing by membership categories (as of August 10th, 2022):

PRINCIPAL MEMBERS (31)		
AMERICAN EXPRESS PAYMENT EUROPE S.L.	FIME	PAN NORDIC CARD ASSOCIATION
ANT GROUP CO.,LTD	FISERV	POSTE ITALIANE
BNP PARIBAS	FRENCHSYS	SAUDI PAYMENTS
BPCE PAYMENT SERVICES	GIE CARTES BANCAIRES	SRC GMBH
CAISSE FÉDÉRALE DE CRÉDIT MUTUEL	HPS	TOTALENERGIES
CASTLES TECHNOLOGY CO., LTD	JCB INTERNATIONAL (EUROPE) LTD.	UNIONPAY INTERNATIONAL CO. LTD.
CREDIT AGRICOLE PAYMENT SERVICES	MARKET PAY	VERIFONE SYSTEMS FRANCE SAS
CRÉDIT MUTUEL ARKEA	MASTERCARD	VISA
DISCOVER FINANCIAL SERVICES	NATIONAL PAYMENT CARD SYSTEM JOINT STOCK COMPANY	WORLDLINE NV/SA
EURO KARTENSYSTEME GMBH	NCR	
FAMOCO	NEXI PAYMENTS	

ASSOCIATE MEMBERS (54)		
ACCEO SOLUTIONS	HITACHI-OMRON TERMINAL SOLUTIONS	PARTELYA CONSULTING
ACI WORLDWIDE	ILIAD SOLUTIONS LTD.	PAYCERT
ADYEN	INFOMIL	PAYTEC AG
AEVI	INTERAC ASSOCIATION	POSPARTNER GESELLSCHAFT GMBH
AMADIS	ITECON FINANCIAL IT-SERVICES GMBH	PPI FRANCE
AURIGA SPA	KORALA ASSOCIATES LIMITED	REDSYS SERVICIOS DE PROCESAMIENTO SL
BANQUE EDEL	LAFON	SALZBURGER BANKEN SOFTWARE
BARCLAYCARD INTERNATIONAL	LAVEGO AG	SCHWARZ IT KG (SIT)
CONECS	LYF SAS	SOPRA BANKING SOFTWARE
CTC ADVANCED GMBH	LYRA NETWORK	STET
DIEBOLD NIXDORF	MONEXT	STRIPE TECHNOLOGY EUROPE LIMITED
ELAVON MERCHANT SERVICES	MONEYCORE	SUNMI TECHNOLOGY
ELITT	MWC PARTNERS LIMITED	TECS GMBH
EPAY EURONET	NEPTING	THALES DIS FRANCE S.A.
FIS	NETS DENMARK A/S	TRANSACTION NETWORK SERVICES
FLOWBIRD GROUP	NOVELPAY SP. Z O.O.	UL
GALITT	OPENWAY EUROPE S.A.	VÖB-ZVD PROCESSING GMBH
GIRMITI SOFTWARE PVT. LTD.	PACE SOFTWARE INC.	WIZARPOS INTERNATIONAL CO., LTD

OBSERVER MEMBERS (13)		
AFSOL	GLOBAL PAYMENTS SPA	SOCIÉTÉ MAGHRÉBINE DE MONÉTIQUE - S2M
BANCONTACT PAYCONIQ COMPANY NV/SA	ISTIUM	SUBWAY
BBPOS	LUSIS	ZUCCHETTI SWITZERLAND SA
CCV GROUP B.V.	PSD CODAX LTD.	
FEIG ELECTRONIC GMBH	SMART CONSULTING	

Payment Plus

Dear Sirs

We wish to register our objection in the strongest possible terms, to the above referenced measures.

The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

Only the largest businesses with deep pockets (banks or their derivatives) will benefit from this – resulting in reduced competition in the market and a return to the higher prices for merchant services which used to be experienced many years ago when the banks monopolised the merchant services market.

The closest analogy to the contract types used in our industry for payment terminals is that of consumer mobile phones contracts – in contrast to the proposals by the PSR, mobile phone minimum contract terms have increased in duration in recent years (24 months used to be the norm but 36 months is now very common) – driven by increasingly complex and therefore expensive mobile phone hardware – exactly the same trend we are seeing for payment terminals, where apart from more complex terminals, chip shortages after the pandemic and transport costs due to the high price of oil are already pushing up costs significantly.

Yours sincerely

[redacted]

[redacted]
PaymentPlus

Paymentwise

paymentwise

Date: July 11, 2022

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

[redacted]

For & on behalf of Paymentwise Merchant Solutions Ltd

[redacted]

Paymetryx

Merchantsaver Ltd Trading As Paymtryx
[redacted]
Registered No: 08362329

To Payment Service Regulator,

Dear Sirs/Madam,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

In UK competition has immensely helped small business owners to offer competitive price. Limiting to 18 months agreement will certainly take away a lot of ISOs to operate because of the cost of terminals, which will make only few big ISOs to thrive where they will have a monopoly and charge a lot of hidden charges so certainly this is not in the interest of the merchants in the long run.

Yours faithfully

[redacted]

Director

Merchantsaver Limited T/A Paymetryx

Tel: [redacted]

www.paymetryx.com

Paypal

Card-acquiring Remedies
Consultation Payment Systems
Regulator
12 Endeavour Square
London E20 1JN

Luxembourg, 10 August 2022

Via electronic mail to cards@psr.org.uk

Dear Sir/Madam

Our ref: PPEU response to PSR CP22/3 Card-acquiring remedies market review; provisional decision

PayPal acknowledges the need for the remedies proposed to address the card-acquiring market review findings. PayPal supports the implementation of the remedies on a reasonable timeline which balances the time needed to implement the technical requirements, considering the time that the review has taken so far, and the need to provide customers with relevant information. However, PayPal submits that the proposed 3-month deadline is not achievable and that the directed providers may not be able to implement all these changes within the prescribed time. In particular, the PSR's proposed timeframe for implementation is not feasible for PayPal for two reasons:

1. Not all remedies can be implemented within three months:

Trigger messages

PayPal considers that implementation of the proposed trigger messages within a three-month period could be feasible. However, this is based on the existing provisional trigger messages included within Annex 2 of the consultation, without taking into account any changes in the PSR's final proposal and whether any further steps (for example – merchant specific messages) are required.

Bespoke summary box / online quotation

Although we already offer merchants a view of the proposed PSR information in an open and transparent way, these specific remedies are more complex to roll out and will require more dedicated product development. Large organisations, such as those to be directed, develop new products in a planned and systematic way, which means that product roadmaps are settled months (and depending on the build, sometimes years) in advance. Including new technology products on a "short notice" basis could conflict with other high priority product development as well as implementations. Please also note that during [redacted]

In addition, the timing of the implementation may be impacted by when the final remedies and compliance timelines are issued. For example, [redacted]

To implement the PSR's remedies, PayPal would also need to engage a wide range of impacted teams across its organisation, including marketing, online websites, and merchant platforms. Again, PayPal will require sufficient lead time to allocate resources and ensure that the roll out of the remedies is aligned efficiently across the affected teams.

[redacted] However, PayPal notes that any improvements it is developing in this regard, again, do not currently include the PSR's proposed remedies (particularly the online quotation tool which will be the most challenging to implement). The PSR's requirements would therefore need to be included as an enhancement. As such additional time over and above the proposed three months would be required, as any enhancement work must be deployed after existing improvements have been completed.

PayPal appreciates that the proposed remedies are aimed at merchants with an annual card turnover of up to £50 million. Scoping this population, as it relates to trigger messages and bespoke summary boxes, and maintaining a live list of these merchants, would require additional technological support which will need to be configured according the PSR's final requirements. PayPal considers that it will need to develop a process for automatically detecting in-scope stock merchants and that such development work would require more than the three months implementation period. Paypal also notes, that as it relates to the online quotation tool, there is already additional support offered to merchants by [redacted] which would therefore put into question the enhancements this remedy is aiming to provide.

PayPal would also welcome further guidance from the PSR on the underlying methodology to define in-scope merchant e.g. whether the £50 million annual card turnover is based on prior year turnover, year to date, average spend etc.

Finally, PayPal acknowledges that it would need to deploy these remedies with the support of our card acquiring partners, a process which is likely to require more than the three months implementation period as it entails the co-ordination of product development across multiple firms.

We also think that the very short timeline for implementation should be viewed in context. The PSR's consultation on the terms of reference for the review was issued in July 2018. The interim report was published in September 2020 and final report in November 2021. The initial remedies consultation was published in January 2022. Given the length of time that has passed since the process started, and the complexity of some of the remedies, a 3 month implementation period seems unreasonably short.

2. Specific timing considerations for an end of year implementation:

On the basis that final directions are published in Q3/Q4 2022, PayPal estimates that implementation may be required between December 2022 and February 2023.

PayPal notes that it already faces considerable resourcing constraints arising from multiple upcoming regulatory commitments e.g. compliance with FCA Consumer Duty (which overlaps to some extent with the issues raised in this consultation), as well as ongoing post-Brexit change management work. Moreover, there are multiple technical regulatory requirements, which are being delivered Q4 2022 / Q1 2023 which place additional resourcing demand on PayPal. [redacted]

In terms of budget allocation, in line with many organisations, PayPal plans its budgets at least one year in advance of budget allocation. This means that the changes proposed by the PSR would be included in the 2023 budget planning cycle (finalised by the end of 2022) but that implementation would land no earlier than mid-2023.

PayPal sincerely hopes that the above points help the PSR in its determination of the appropriate extension time and PayPal would respectfully like to propose a 12-month implementation period for the proposed remedies.

In addition to the abovementioned concerns around compliance timelines, PayPal would also like to address the scope of providers included in the proposed direction. The current proposal only directs 14 providers of card-acquiring services, and we acknowledge that these have been selected as being the most significant providers in the UK. However, as the intent behind the proposed remedies is to improve transparency and fairness in the card acquiring market, for the benefit of merchants, PayPal would recommend that the proposed remedies are imposed market wide, and not only against specific providers. This will ensure the market as a whole is harmonised in terms of card-acquiring related information shared with merchants.

Please let us know if you have any questions in relation to this response or require any further supporting material.

Paypoint

PayPoint Group

PayPoint Group
[redacted]
paypoint.com

To:

Consultation – Card Acquiring Market Remedies CP22/3

Payment Systems Regulator

12 Endeavour Square

London E20 1JN

Sent by e-mail to:

cards@psr.org.uk

9 August 2022

Dear Sirs,

Re: CP22/3 Consultation – Card Acquiring Market Remedies

We welcome the opportunity to respond to the consultation. The PayPoint Group serves a diverse range of organisations, from SME and convenience retailer partners, to local authorities, multinational service providers and e-commerce brands. Our products are split across three core business divisions:

- In Shopping, we enhance retailer propositions and customer experiences through EPoS services via PayPoint One, card payment technology, ATMs and home delivery technology partnerships in over 60,000 SME and retailer partner locations across multiple sectors. Our retail network of over 28,000 convenience stores is larger than all the banks, supermarkets and Post Offices put together
- In E-commerce, we deliver best-in-class customer journeys through Collect+, a tech-based delivery solution that allows parcels to be sent, picked up and dropped off at thousands of local stores
- In Payments and Banking, we help companies and their customers make and receive payments quickly and conveniently. This includes our digital payments platform, MultiPay, an eMoney offering that enables cash through to digital transactions and cash solutions providing vital consumer access across our extensive retail network. This part of the business includes the provision of Merchant Rental terminals via Handepay.

Together, these solutions enable the PayPoint Group to create long-term value for all stakeholders, including customers, communities and the world we live in.

We have previously held direct discussions with the PSR with regard to the terminal rental market but would like to provide a response to your recent consultation. Our comments on the proposals are set out in Annex 1 below. We do not regard our responses to be confidential.

Yours faithfully,

[redacted]

Banking Services Director

PayPoint Group

Annex 1 – Responses to the Consultation CP22/3

1. Summary Information Boxes

The consultation indicates the Acquirers and ISOs do not typically publish their prices for card-acquiring services. This makes it difficult for merchants to compare prices for ISOs, acquirers and payment facilitators.

We welcome the opportunity for merchants to be presented with clear information as to the core pricing and charges associated with acquiring. However, we believe there are a number of issues that still need to be considered.

Card Scheme Pricing – We are concerned that the complexity of charging and fees arising from the card scheme pricing structures is not addressed. If the charging and fee structures were simplified, the subsequent information disclosure boxes will become more meaningful. Unless the underlying issues are addressed, there remains a risk that far from being a helpful tool, the information boxes become similar to “cookie warnings”, skipped over by the merchant rather than considered. Clarity and simplicity remain the key.

Multiple Acquirer Information Boxes – When an ISO has more than one acquirer, how does the PSR envisage the information box should represented? The current format does not lend itself to multiple information boxes as it is too long and detailed to provide for comparisons to be made side by side.

Will the PSR be considering a simple version as well a more detailed version? This is similar to other financial services advertising and information disclosures were the level of detail can be varied depending on the messaging.

Development Time and Costs – The solution to be represented on the website of ISO, terminal providers and acquirers may not be as simple as adding text. Where development is required, the lead time of 90 days from publication of the notice is insufficient to allow for the information boxes to be created and published.

In addition, there is almost a presumption that the information boxes will be static but acquirers will vary and amend their pricing to respond to market developments. This means this is not a one-off exercise but an ongoing commitment and development expense. This creates a cost that does not appear to be reflected in the impact assessments.

2. Stimulating Digital Comparison Tools (DCTs)

We understand why the merchant may wish to use DCTs during their renewal process. However, we have concerns that the fees charged for participation may not be controlled and the service itself need to be closely monitored to ensure that there is no distortion in the results seen by the merchant.

3. Trigger Messages

Frequency of messaging – The wording discussed at the recent roundtable seemed to imply that organisation that has already moved to shorter term agreements will need to send out trigger messages on a more frequent basis. Will the final direction limit the trigger messaging to an annual period or similar? Otherwise the organisation that provide the greatest flexibility will have the heaviest burden.

The content of the trigger message also need to be something that can be sent without confusion. The draft messages provided implied the merchant is on unfavourable terms rather than emphasisingthe merchant should consider the best package for their needs which may or may not mean seeking alternative providers.

4. Addressing Barriers to Switching between Card- Acquiring Services which arise from POS Terminal Leases

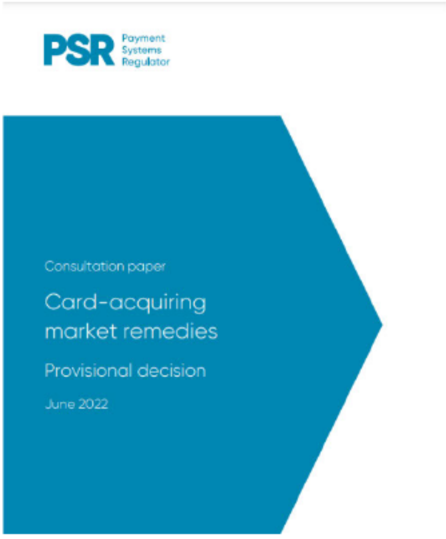
Comparison of different models – The consultation appears to focus on the model where the merchant pays a rental or similar for terminal.

The market is evolving and there are now a variety of models that include payment processing capability but are not focused on card processing as the sole service. Software as a service, EPOS systems are examples of these alternative models. The device used is not restricted to the card processing service and needs to be able to support other services.

Can the PSR confirm that where the card processing component is merely part of another wider service offering, the service provider is not caught by the requirements of the direction?

Phoenix Edge

REPLY TO THE CONSULTATION


PSR Payment Systems Regulator

Consultation paper

Card-acquiring market remedies

Provisional decision

June 2022

ON THE PSR CARD ACQUIRING

MARKET REMEDIES

CP22/3

By [redacted], CEO Phoenix Edge Ltd

PhoenixEdge

Phoenix Edge Ltd

Registered Address:

33a High Street, Stony Stratford

Milton Keynes, MK11 1AA

Company Registration Number: 6527212

AUGUST 2022

Table of Contents

INTRODUCTION

About me

I advise organisations of all sizes on payments, fintech, regtech, cybercrime, information security, regulations (e.g. PSD2, GDPR, AML) & digital innovation. With more than 20 years in financial services & technology, I believe in change through innovation & partnerships and always strive to demystify the hype surrounding current issues. I enjoy my work as a strategic board advisor and non-executive director and am also a professional speaker. I also provide coaching and training, payment security expert witness services, and help with M&As cybersecurity due diligence. I like engaging on social media & regularly address global audiences in person or virtually.

I am the 1st member of Advisory Committee for PCI Pal, a global leader in secure payments & chair the Advisory Board for mobile innovator Ensygnia. I am proud to be an independent volunteer for the UK Federation and a friend of the Global Cyber Alliance.

You'll find me on the Refinitiv list of Top 100 Influencers in Financial Services, the Planet Compliance Top 50 RegTech Influencers, the SC Magazine list of the UK's 50 Most Influential Women in Cyber-Security 2019, the Cybersecurity Ventures Women Know Cyber 2019 (100 Fascinating Women Fighting Cybercrime), the Jax Finance Top 20 Social Influencers in Fintech 2017, the City AM Powerful Women in the City List, the Richtopia Top 100 Most Influential People in Fintech. Tripwire nominated me "Top Influencer in Security To Follow on Twitter" in January 2015, CEOWorld Magazine nominated me Top Chief Security Officer to Follow on Twitter in April 2014, I am the Merchant Payments Ecosystem Acquiring Personality of the Year 2013, the SC Magazine Information Security Person of the Year 2012 and am an InfoSecurity Europe Hall of Fame alumni. I was voted to the Top 10 Most Influential People in Information Security by SC Magazine & ISC2 in 2010 & have served on the PCI SSC Board of Advisors for 4 years. I am a British Computer Society Fellow.

I have previously worked for Barclaycard, Santander, Abbey National, Oracle Corp. and Unisys. My clients span industry sectors, including financial services, fintech, retail, legal, consulting, information security & technology.

What prompted me to reply to this consultation

I was Director of Payment Security & Fraud for a leading acquirer between 2008 and 2015. Since then, I have been continuously involved with the payments and cyber security and fraud prevention industries. During my time at the acquirer, I have witnessed first-hand the various merchant challenges as they conduct their business and accept payments. Since then, those challenges remain, and this consultation on remedies is most welcome.

[redacted]
CEO Phoenix Edge Ltd
August 2022

EXECUTIVE SUMMARY

I commend the PSR for launching this consultation and publishing its proposed remedies, which will go a long way to introduce fairness and transparency in the industry. This reply was finalised upon reading all related documentation published on the PSR website and drawing from public information sources.

My recommendations will mainly focus on the following:

- Design and content of the **bespoke summary box** and **online quotation tool**.
- The cap on **POS terminal contracts**.
- The design and content of the **trigger message**.
- The list of **directed providers** and **implementation timeline**.

Given the PSR's remit around improving **competition**, supporting **innovation** and **promoting SMEs** and **end user interests** in payment systems, the PSR proposed remedies are welcomed.

The card payments ecosystem is a complex one. In my response, I have taken great care to present an unbiased view. My aim is to highlight the issues that SMEs face in our constantly evolving and challenging world. It is my belief that the PSR is ideally placed to help achieve better outcomes.

This document provides a list of clear recommendations after the various problem statements and explanations. I appreciate that, given the amount of change the payments industry is known for, any regulatory intervention has to be proportionate and prioritised appropriately. But it also needs to recognise that accelerating societal change is changing the shape of the market currently dominated by cards. With this in mind, the PSR may wish to consider **establishing a working group of experts** to help prioritise and establish a plan of activities to implement findings of the current review and to monitor the need for further action. I would be delighted to help.

I hope you find this report of use, and I remain at your disposal should you have any further queries.

[redacted]

CEO Phoenix Edge Ltd
August 2022

[redacted]

SCOPE OF REMEDIES

Generic comments on Section 1

Paragraph 1.7 – POS terminals
"A merchant typically cannot use its existing POS terminal with a new card acquirer. If it switches provider of card-acquiring services, it may need a new POS terminal and to cancel its existing POS terminal contract."

Confining the remedies to current hardware POS terminals only will not take into account current market trends, such as the increasing popularity of Soft POS offering, where merchants would use their own mobile devices (usually Android-based consumer devices) and deploy software for the purpose of accepting payments (see later sections for recommendations).

This point was made by several respondents to the original consultation.

Paragraph 1.8 – Competition
"[...] subsequently creating incentives for suppliers of card-acquiring services to develop and offer better deals for merchants through competitive pressure as merchants become more engaged and shop around more actively with better information."

The current consultation confines competition to the supply of card acquiring services and therefore the remedies will not consider current market trends with account-account payments and Open Banking.

This point was made by several respondents to the original consultation, but the PSR should be commended for their commitment to deploy this through the summary box as per their response to the Digital Payments Initiative (RP22/3), where the PSR states that:

RP22/3 Paragraph 5.10 – Recommendation 2: As the PSR undertakes detailed design of its proposed CAMR remedies to help merchants compare card-acquiring services' prices and service features, it should take into account that merchants may increasingly also want to make comparisons between cards and other payment options, including account-to-account payments.

RP22/3 Paragraph 5.12 - [...] These include a requirement for card acquirers to provide merchants with bespoke summary information setting out key price and non-price service elements of their card-acquiring services. A remedy of this kind could also help merchants compare card with emerging non-card payment options, making it easier for them to choose between different digital payment methods.

RP22/3 Paragraph 5.13 – Recommendation 3: The PSR, alongside the FCA, will need to take a regulatory oversight role to ensure that open banking payments develop beyond the CMA Order to enable competitive new account-to-account retail payment services, while ensuring appropriate consumer protections.

However, it was unclear from the workshop on 20th July, following a few questions on this topic, as to whether this commitment is aspirational or actual.

Sections 2.6 to 2.15

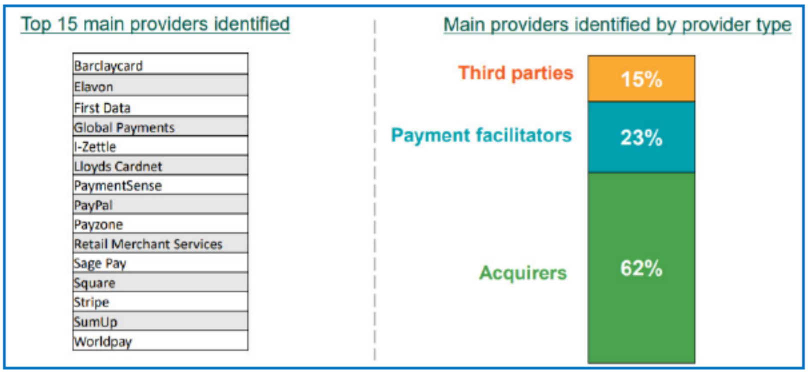
Section 2.6

"We are implementing these remedies to promote effective competition in the market for payment systems, and the markets for services provided by payment systems. We have concluded that this will work in the interests of those who use, or are likely to use, services provided by payment systems."

I commend the PSR for the mention of "payment systems", and not just "card acquiring".

Sections 2.9 to 2.15

The interim card acquiring market review report made the following selection as representative of the UK market:



CP22/3 selects 14 providers in scope of these remedies (section 2.9), with the following 7 being part of the original list:

- Barclays Bank PLC
- Elavon Financial Services DAC
- First Data Europe Limited
- GPUK LLP (Global Payments)
- Lloyds Bank plc: Lloyds Cardnet is a JV with First Data, so one may question this inclusion if we are to keep consistent after the removal of Zettle on the (assumed) basis of their acquisition by Paypal
- PayPal (Europe) Sarl et Cie SCA (now includes Zettle)
- Square UK
- Stripe UK
- Sumup Payments Ltd
- Worldpay UK Ltd

The following are new additions:

- Adyen UK Limited: with their acquiring license, they now have the perspective of both e-comm acquiring and PSP, a good addition
- Chase Paymentech Europe Limited: a welcome addition as JP Morgan is currently focusing on the UK merchant services market (amongst other things)
- EVO Payments International GmbH, Branch UK: a large international player, a good addition
- First Merchant Processing (Ireland) DAC (AIB Merchant Services): this is a JV between AIB and Fiserv, so why not just include Fiserv?

The following entities were removed from the providers originally in scope:

- Sagepay: now Opayo and owned by Elavon, therefore already included
- Payzone: now owned by AIB Group, therefore already included
- Retail Merchant Services (aka RMS, now owned by Saltpay): ISO serving 45,000 merchants prior to Saltpay acquisition
- PaymentSense: ISO serving 80,000 UK merchants

CONSIDERATIONS GOING FORWARD:

Section 2.15 specifies that "Where a directed PSP provides services to a merchant through an independent sales organisation (ISO), the PSP will be required to ensure that the relevant ISO complies with the applicable direction."

Section 2.10 specifies "The PSR identified these providers based on volumes and value of transactions processed, and the numbers of small and medium sized merchant customers served."

During the workshop on 20th July, there was concern over the limited scope of "directed PSPs", and **it might be worthwhile to reconsider the exclusion of ISOs**, especially as some ISOs have multiple acquiring partners. Section 2.15 suggests the establishment of rules to be followed by PSPs so they can in turn make their ISOs compliant, which may be difficult to manage, and this could add an additional burden on acquirers and ISOs, especially in the case of multiple partnerships. Merchant volumes served by RMS and PaymentSense are substantial, making them qualify for direct inclusion (but these are not the only providers to consider). It should also be noted that PaymentSense acquired Dojo, an acquirer currently signing up a thousands of SMEs each month.

In addition, and as previously suggested in my reply to the card acquiring market review, the following should be considered for inclusion:

Other mainstream acquirers: Worldline is a major omission (especially as they own both Ingenico and Bambora)

Other acquirers (in alphabetical order): acquiring.com, checkout.com, Finaro (ex Credorax), Nuvei (who acquired Safecharge), Paysafe, trustpayments.com

Other PSPs: Shopify currently serves more than 156,000 ecommerce stores in the UK[1] and should be considered as, unlike Woocommerce[2], it provides native payment options. In addition, ePOS providers such as eposnow (UK leader), touchbistro, nobly and lightspeed should also be considered as their pricing can be confusing.

In conclusion, it is my belief, and that of many of my peers on the 20th July workshop, that the list of 14 directed PSPs will not serve the market as well as intended in section 2.11, and this list should either be extended (as per above), or include all PSPs. Perhaps consideration should be given to a staggered implementation approach for different categories, to offer more flexibility to the smaller players. This approach has proved successful with the OBIE, where largest PSPs were in Phase 1 and others in Phase 2 of Open Banking deployment.

[1] https://ecommercenews.eu/number-of-shopify-stores-grew-200/

[2] https://insights.dekopay.com/industry-insights/the-power-of-woocommerce-defined-with-these-10-stats

POS TERMINALS

Section 2.16 – POS contract duration restrictions

This is a welcome remedy and was debated at length during the 20th July workshop. Of particular note was the different impact that these restrictions would have on the different types of players (i.e. acquirers vs ISOs).

My only additional point is that this section concentrates exclusively on the physical terminal market for lease and rental agreements.

There are, however, two categories not included for consideration:

1) **ePOS providers** (as listed in previous section), given the popularity of these solutions in the SME sector, contractual specifics should be catered for (see previous section for some UK market providers - e.g. eposnow).
2) **Soft POS providers**: since these do not necessitate the purchase or rental of additional hardware since they use the merchant's own mobile device and only provide software, the contractual terms would be different. Given the increasing popularity of these solutions[3] in the SME space. To future-proof the remedies, these players should also be included in the list of directed PSPs. Examples are (alphabetical order) Payten, Phos, SoftPOS, to name but a few. This is an excellent opportunity to catch the market trend early, and whilst many providers offer software for free, this will not remain the case forever and safeguards should be introduced early and proportionately so as not to stifle innovation.

CONSIDERATION GOING FORWARD
Given their addressable market and current penetration, contractual specifics for the following entities should be considered, as they differ from traditional hardware POS providers:

ePOS providers

Soft POS providers

The proposed remedies should be adjusted accordingly.

[3] https://www.paymentscardsandmobile.com/the-soft-machine-is-soft-pos-taking-over/

IMPLEMENTATION PERIOD

Section 2.17 – Implementation Period

"We have provisionally decided that the remedies will be required to be in place and fully implemented no later than three months after the final directions are given. In our stakeholder engagement, providers have indicated that this would be a reasonable period for implementation given the systems requirements for the remedies we plan to introduce."

CONSIDERATION GOING FORWARD

As per comments related to sections 2.9 to 2.15, it might be worth considering a **staggered implementation period** to cater for the breadth of providers of payment systems. A suggestion is given below for illustrative purposes:

Phase 1: major providers consisting of the 14 "directed PSPs", with the addition of Worldline (acquirer), PaymentSense (ISO & acquirer), SaltPay (including RMS, ISO), Shopify (major PSP), and eposnow (major ePOS provider).

Phase 2: other acquirers, including acquiring.com, checkout.com, Finaro (ex Credorax), Nuvei (who acquired Safecharge), Paysafe, trustpayments.com; with the addition of other ePOS providers such as touchbistro, nobly and lightspeed

Phase 3: all other providers, including payment systems outside of acquiring (e.g. account-to-account and Open Banking, etc.)

And as mentioned during the 20th July workshop, any PSPs in later phases could elect to participate in earlier deployments.

SUMMARY BOXES

Sections 2.36 – 2.37 – Format and content of summary boxes

The PSR's intention to prescribe the format of summary boxes is welcome as this will provide consistency and transparency across payment systems.

Preferred Option 1

The opportunity to comment on the design and content of the summary box is welcome and I prefer Option 1 below, in line with the PSR choice:

PSR Payment Systems Regulator

We are required by the PSR to provide you with this summary box to help you make informed decisions about your card acceptance services. You can use it to compare offers from other providers, some of whom are required by the PSR to provide quotes in a similar format. You can obtain a quote from these providers' websites, using their online quotation tool.

About you

Contract expiry date 28 December 2022

Your total charges in previous 12 months	£1,155.22	Total card acceptance in previous 12 months	£86,578.25	Your average transaction value	£11.28	Merchant Category Code (MCC)	Other retail

Your costs for accepting common individual card payments[0]

Consumer domestic[1]	Mastercard		VISA	
	Debit	Credit	Debit	Credit
Card present[2]	0.7%	0.9%	0.7%	0.9%
Card not present[3]	0.9%	1.1%	0.9%	1.1%
Transaction split[4]	10%	15%	45%	10%

+

Additional charges per transaction	
Authorisation fee	4p

Other potential transaction charges	
Chargeback fee	£24.00
Retrieval fee	£2.00
Any other fees	

Example

If your customer uses a Mastercard consumer debit card in person (in your store) to purchase a £10 item, you would pay: 7p (0.7% of £10.00) + 4p (authorisation fee) = 11p

Some typical monthly charges you may have to pay in addition to transaction costs

POS terminal (per terminal)	£20.00
Gateway[5]	included
Payment Card Industry Data Security Standard (PCI DSS) fee[6]	£5.00
Minimum Monthly Service Charge (MMSC)[7]	£20.00

About your service	
Settlement time	24 hours
Payment brands accepted	VISA Mastercard Amex

0 These card types are the most commonly used cards for most merchants. You may also accept significant numbers of other card types including business cards, corporate cards and international cards which may cost more to accept. You can identify the types of cards you accept in your transaction information.
1 A card issued in the UK to a consumer.
2 A card transaction in which the cardholder is present and presents the card to you.
3 A card transaction that is not a card-present transaction such as e-commerce, mail order and telephone transactions.
4 The proportion of your transactions represented by each card type.
5 A service for capturing and transferring payment data.
6 Charges relating to compliance with a set of standards designed to protect the security of card transactions and reduce fraud.
7 Amount payable if your monthly transaction charges do not meet a minimum agreed amount.

In the next few pages, I make recommendations along the following lines:

- The addition of a "per month" average fee in the headline box
- The addition of an overall effective transaction rate (what the merchant would pay at a minimum taking into account all fees
- A more detailed breakdown of the card transaction box.
- Some additions on the non-price elements
- Some additions to the non-transactional costs

The above will allow for easier comparison between different types of PSPs, including those that supply non-card payment services (e.g. Open Banking).

All calculations can be explained clearly.

Consistency of terminology across providers

As was noted by many respondents to the original consultation on remedies, the content of the summary boxes needs to be effective for all stakeholders, and consistency of terminology must be achieved.

The PSR will need to ensure this is achieved, both for price and non-price elements. This can be achieved through agreed definitions and ensure that input data to both summary boxes and quotation tools is consistent.

The PSR should also see the summary box as an opportunity to monitor/enforce compliance with the IFR, as has been noted by many respondents to the original consultation on remedies.

Input data

The input data needs to be as simple as possible for merchants to understand, but sufficient to enable fair comparison.

The headline rates should be clearly sign-posted as minimum charges, whilst giving an idea of potential additional charges depending on the merchant specific case.

For each type of card, the acquirer is able to calculate the weighted average according to type (e.g. domestic, international). I suggest that the PSR might find it a beneficial exercise, if the data is not already available, to ask payment service providers to provide profiling data for merchants of up to £10M total card turnover as well as for those with a total card turnover between £10M and £50M to ascertain whether there are major profiling difference that need to be taken into account in the formulas for the bespoke summary boxes and DCTs.

For card payments, the calculations should cater for a typical mix of cards for SMEs, listing VISA & Mastercard (as the dominant providers in the UK), with an additional category of "Other" to cater for all other schemes.

The following input data is suggested:
For all payment service providers:

- Transaction volumes per year
- Total transaction value per year
- Required settlement period
- Whether the merchant processes payments physically or virtually, giving a transaction split (e.g. 70% F2F, 30% CNP)
- The number of refunds per year if known (if not known, provide a default value)

For card payments only:

- The number of MIDs
- The transaction split across various types of cards (e.g. consumer, commercial) if known (if not known, provide default values for weighted averages – see illustrations in the next sections)
- The number of terminals (if applicable)
- Whether an e-commerce gateway is used
- The number of chargebacks per year if known (if not known, provide a default value)
- The number of retrievals per year if known (if not known, provide a default value)
- Whether the merchant is compliant with PCI DSS.

These data elements are suitable for use in both the bespoke summary boxes (which are provided by the payment provider to an existing customer), or for the online quotation tool (where the merchant provides the data, or defaults are used where they can't). The provision of default values can be easily provided based on industry knowledge (and PSPs/ card schemes have all the data).

Card payments bespoke summary box

Following the principles detailed in the previous section, a card payments bespoke summary box could look like this (the detailed calculations and assumptions are detailed in the next sections:

TAKING PAYMENTS FROM YOUR CUSTOMERS

About you

Your contract expires	Contract duration	Your average transaction value	Your transaction volumes in the last 12 months	Your total transaction value in the last 12 months	The settlement time we give you	The payment brands you accept	
28 December 2022	18 months	£11.30	7,675	£86,727.50	24 hours	Visa, Mastercard, American Express	
						MCC 5999	Miscellaneous and specialty retail shops

At a glance: the costs of taking payments

Card payments	What you pay monthly[1] (minimum)	What you pay per transaction[2] (minimum)	Your effective rate (minimum)	What you paid in the last year[3] (minimum)
Transactional costs	£87.19	£0.14	1.21%	£1,046.27
Non-transactional costs	£114.48	£0.18 (normalised)	1.58%	£1.373.76
What you pay	**£201.67 per month**	**£0.32 per transaction**	**2.79%**	**£2420.04 per year**

How we calculated your transaction charges

Transactions	Consumer debit			Consumer credit			Business debit			Business credit		
	Visa	Mastercard	Other	Visa	Mastercard	Other	Visa	Mastercard	Other	Visa	Mastercard	Other
Interchange	0.20%	0.20%	0.20%	0.30%	0.30%	1.80%	1.35%	1.35%	2.00%	1.80%	1.80%	2.50%
Auth Fee	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03
Acquirer	0.14%	0.14%	0.14%	0.26%	0.26%	2%	0.14%	0.14%	0.14%	0.26%	0.26%	2%
Transaction split	45%	5%	0%	8%	10%	4%	10%	5%	0%	1%	10%	2%
Transactions per year	3454	384	0	614	768	307	768	384	0	77	768	154
Transaction Value/ year	£39,027.38	£4,336.38	£0.00	£6,938.20	£8,672.75	£3,469.10	£8,672.75	£4,336.38	£0.00	£867.28	£8,672.75	£1,734.55
Transaction cost/ year	£236.31	£26.26	£0.00	£57.27	£71.59	£141.04	£152.25	£76.12	£0.00	£18.43	£184.34	£82.66
Transaction cost/ month	**£19.70**	**£2.19**	**£0**	**£4.78**	**£5.97**	**£11.75**	**£12.69**	**£6.34**	**£0**	**£1.54**	**£15.36**	**£6.89**
Effective rate	**0.61%**	**0.61%**	**-**	**0.83%**	**0.83%**	**4.06%**	**1.76%**	**1.76%**	**-**	**2.13%**	**2.13%**	**4.77%**

How we calculated your non-transactional charges

Non-transactional charges	Fixed fee	Variable fee
Minimum monthly fee	£15/ month*	
Fast settlement fee	£2.95/ month*	£0.84/ day (clearing batch)
Dashboard/ billing fee	£10/ month	
Terminal rental	£18/ month	
Terminal management	£15/ month	
e-commerce gateway	£20/ month	£0.10/ transaction*
CNP premium		0.25%/ transaction*
Retrieval fee	£0.20	
Refund fee	£0.20	
Chargeback fee	£20 per chargeback	
PCI administration fee	£5/ month (minimum)	
PCI non-compliance fee	£15/ month/ MID (minimum)	
PCI Scans (for e-comm only)	£35 per quarter/ IP address (minimum)	
Total monthly cost	**£89.48**	**£25**

Other services we give you:

24h help desk
Chat facility
etc...

Other charges you may incur:

Depending on your situation, you also may incur one-off costs, such as set-up fees, early termination fees, penalties for breach of card scheme mandates, etc.
Please talk to us so we can help you with these.

Non-card payments bespoke summary box

The same principles can be used for non-card payments:

TAKING PAYMENTS FROM YOUR CUSTOMERS

About you

Your contract expires	Contract duration	Your average transaction value	Your transaction volumes in the last 12 months	Your total transaction value in the last 12 months	The settlement time we give you	Bespoke area
30 August 2022	No minimum term	£11.30	7,675	£86,727.50	immediate	

At a glance: the costs of taking payments

Bank payments	What you pay monthly[1] (minimum)	What you pay per transaction[2] (minimum)	Your effective rate (minimum)	What you paid in the last year[3] (minimum)
Transactional costs	£136	£0.21	£1.88%	£1,631.94
Non-transactional costs	£0	£0	0%	£0
What you pay	**£136 per month**	**£0.21 per transaction**	**1.88%**	**£1,631.94**

How we calculated your transaction charges

Non-card payments	0 to 5,000 transactions monthly	5,000 and above monthly
Fixed fee per month	£10.00	0
Variable fee	0.5% for transactions above 5,000	0.5%
Transaction volume/ year	4,999	2,676
Transaction value/ year	£56,488.70	£30,238.80
Transaction cost per year	£120	£1,511.94
Transaction cost per month	**£10**	**£126**
Effective rate	**0.21%**	**0.5%**

How we calculated your non-transactional charges

Non-transactional charges	Fixed fee	Variable fee
Minimum monthly fee	£0	£0
Fast settlement fee	£0	£0
Dashboard/ billing fee	£0	£0
Terminal rental	£0	£0
Terminal management	£0	£0
e-commerce gateway	£0	£0
CNP premium	£0	£0
Retrieval fee	£0	£0
Refund fee	£0	£0
Chargeback fee	£0	£0
PCI administration fee	£0	£0
PCI non-compliance fee	£0	£0
PCI Scans (for e-comm only)	£0	£0
Total monthly cost	**£0**	**£0**

Other services we give you:

Self-service help desk
Chat facility
etc...

Other charges you may incur:

Depending on your situation, you also may incur one-off costs, depending on the services you require.
Please talk to us so we can help you with these.

Note: there may be other non-transactional charges to be added, the above is only illustrative.

Headline Box

The headline box must provide clear headline information and cater for multiple provider types.

For illustrative purpose, we make the following assumptions:

- the merchant has one location (e.g. for cards, one MID)
- for card payments, the merchant rents one physical terminal on an 18-month contract
- the merchant doesn't process e-commerce transactions (i.e. 100% F2F, 0% CNP)
- the merchant processes transactions above the minimum required
- the merchant has/ needs fast settlement
- the merchant has incurred 5 chargebacks in the last year
- the merchant has processed 12 refunds in the last year
- the merchant is not PCI DSS compliant

The merchant profile

The "about you" box shows merchant characteristics and represents the following:

- either 1) the data a merchant would have to provide when they want a comparison, or 2) the data the payment service provider will provide if this is an existing customer.
- Some non-price elements that characterise the payment service offered

For card payments, the merchant profile can be shown as below:

<table>
<tr><th>Your contract expires</th><th>Contract duration</th><th>Your average transaction value</th><th>Your transaction volumes in the last 12 months</th><th>Your total transaction value in the last 12 months</th><th>The settlement time we give you</th><th colspan="2">The payment brands you accept</th></tr>
<tr><td rowspan="2">28 December 2022</td><td rowspan="2">18 months</td><td rowspan="2">£11.30</td><td rowspan="2">7,675</td><td rowspan="2">£86,727.50</td><td rowspan="2">24 hours</td><td colspan="2">Visa, Mastercard, American Express</td></tr>
<tr><td>MCC 5999</td><td>Miscellaneous and specialty retail shops</td></tr>
</table>

For non-card payments, the merchant profile is similar to the above:

<table>
<tr><th>Your contract expires</th><th>Contract duration</th><th>Your average transaction value</th><th>Your transaction volumes in the last 12 months</th><th>Your total transaction value in the last 12 months</th><th>The settlement time we give you</th><th rowspan="2">Bespoke area</th></tr>
<tr><td>30 August 2022</td><td>No minimum term</td><td>£11.30</td><td>7,675</td><td>£86,727.50</td><td>immediate</td></tr>
</table>

The above boxes demonstrate that merchant profile data applies to any type of PSP.

The merchant headline charges

The "at a glance" box shows the headline figures derived from the detailed transactional and non-transactional costs, and the illustration below shows **card payments**:

Card payments	What you pay monthly[1] (minimum)	What you pay per transaction[2] (minimum)	Your effective rate (minimum)	What you paid in the last year[3] (minimum)
Transactional costs	£87.19	£0.14	1.21%	£1,046.27
Non-transactional costs	£114.48	£0.18 (normalised)	1.58%	£1,373.76
What you pay	**£201.67 per month**	**£0.32 per transaction**	**2.79%**	**£2420.04 per year**

1 **How your minimum monthly amount is calculated**:

- This represents your estimated total charges in a year divided by 12.

2 **How your minimum transaction fee is calculated**:

- Total transaction volume in the last 12 months divided by the estimated minimum charges over the last 12 months.

3 **How your total charges have been calculated**:

- For card payments, this represents the minimum amount that you would be charged in a year. This includes the most common transactional costs (e.g. interchange, authorisation (card scheme fee), acquirer margin, authorisation) and non-transactional costs that are applied monthly (e.g. monthly minimum, CNP premium, PCI, fast settlement, etc.), but does not include other costs related to other services (e.g. terminal, gateway), other ad-hoc charges (e.g. chargebacks, refunds, etc.) and other value added services (e.g. DCC, loyalty, etc.).
- The figures above are weighted averages derived from the figures given in the other parts of the summary box.

For **non-card payments**, the illustration is shown below:

Bank payments	What you pay monthly[1] (minimum)	What you pay per transaction[2] (minimum)	Your effective rate (minimum)	What you paid in the last year[3] (minimum)
Transactional costs	£136	£0.21	£1.88%	£1,631.94
Non-transactional costs	£0	£0	0%	£0
What you pay	**£136 per month**	**£0.21 per transaction**	**1.88%**	**£1,631.94**

The above demonstrates how consistently calculated headline charges allow for comparison across numerous payment services providers.

Transactional costs:

This is an opportunity to enforce compliance with the IFR caps of 0.2% and 0.3% on consumer debit and credit transactions respectively (weighted average). To this effect, the following modifications are suggested:

The first box below applies to **card payments** (note: the figures used are illustrative only, although the calculations to derive the headline box are accurate):

Transactions	Consumer debit			Consumer credit			Business debit			Business credit		
	Visa	Mastercard	Other	Visa	Mastercard	Other	Visa	Mastercard	Other	Visa	Mastercard	Other
Interchange	0.20%	0.20%	0.70%	0.30%	0.30%	1.80%	1.35%	1.35%	2.00%	1.60%	1.60%	2.50%
Auth Fee	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03	£0.03
Acquirer	0.14%	0.14%	0.14%	0.26%	0.26%	2%	0.14%	0.14%	0.14%	0.26%	0.26%	2%
Transaction split	45%	5%	0%	8%	10%	4%	10%	5%	0%	1%	10%	2%
Transactions per year	3454	384	0	614	768	307	768	384	0	77	768	154
Transaction Value/ year	£39,027.38	£4,336.38	£0.00	£6,938.20	£8,672.75	£3,469.10	£8,672.75	£4,336.38	£0.00	£867.28	£8,672.75	£1,734.55
Transaction cost/ year	£236.31	£26.26	£0.00	£57.27	£71.59	£141.04	£152.25	£76.12	£0.00	£18.43	£184.34	£82.66
Transaction cost/ month	**£19.70**	**£2.19**	**£0**	**£4.78**	**£5.97**	**£11.75**	**£12.69**	**£6.34**	**£0**	**£1.54**	**£15.36**	**£6.89**
Effective rate	**0.61%**	**0.61%**	-	**0.83%**	**0.83%**	**4.06%**	**1.76%**	**1.76%**	-	**2.13%**	**2.13%**	**4.77%**

Using this presentation model gives complete transparency to merchants, in line with the IFR. However, it doesn't include all card scheme fees and only specifies the authorisation fee, as it is the most standard across the board. It does however give a good appreciation for what a merchant would pay at a minimum on a transactional basis.

The box below applies to **non-card payments**, and the model here is much simpler as the rates generally apply to transaction volumes, rather than value, although some providers offer pay-as-you-go plans which are ad-valorem. This is illustrated below:

Non-card payments	0 to 5,000 transactions monthly	5,000 and above monthly
Fixed fee per month	£10.00	0
Variable fee	0.5% for transactions above 5,000	0.5%
Transaction volume/ year	4,999	2,676
Transaction value/ year	£56,488.70	£30,238.80
Transaction cost per year	£120	£1,511.94
Transaction cost per month	**£10**	**£126**
Effective rate	**0.21%**	**0.5%**

The above illustrates how comparing standard transactional headline costs only doesn't reflect what a merchant pays in reality. In these examples, it looks like card payments (total minimum transactional costs £87.19 monthly) are much cheaper than bank payments (£136 monthly), which is not true, as will be detailed in the next sections.

Non transactional costs

Both card and non-card payments can be compared using the same table.

The following tables illustrate the most typical costs a merchant might incur monthly.

Illustration for card payments

Non-transactional charges	Fixed fee	Variable fee
Minimum monthly fee	£15/month*	
Fast settlement fee	£2.95/month*	£0.84/day (clearing batch)
Dashboard/ billing fee	£10/month	
Terminal rental	£18/month	
Terminal management	£15/month	
e-commerce gateway	£20/month	£0.10/transaction*
CNP premium		0.25%/transaction*
Retrieval fee	£0.20	
Refund fee	£0.20	
Chargeback fee	£20 per chargeback	
PCI administration fee	£5/month (minimum)	
PCI non-compliance fee	£15/month/MID (minimum)	
PCI Scans (for e-comm only)	£35 per quarter/ IP address (minimum)	
Total monthly cost	**£89.48**	**£25**

Illustration for non-card payments

The above table applies equally to non-card payments, where additional rows can be added, or rows replaced to cater for typical charges for those PSPs (e.g. invoice payments, etc.). For the same merchant as above, the illustration will be:

Non-transactional charges	Fixed fee	Variable fee
Minimum monthly fee	£0	£0
Fast settlement fee	£0	£0
Dashboard/ billing fee	£0	£0
Terminal rental	£0	£0
Terminal management	£0	£0
e-commerce gateway	£0	£0
CNP premium	£0	£0
Retrieval fee	£0	£0
Refund fee	£0	£0
Chargeback fee	£0	£0
PCI administration fee	£0	£0
PCI non-compliance fee	£0	£0
PCI Scans (for e-comm only)	£0	£0
Total monthly cost	**£0**	**£0**

Other costs

The costs included in this section are those that will not be part of the calculations, but should be highlighted in the commentary:

- Set-up fee
- Early termination fee
- Penalties
- etc.

Other services

These services will not be included in the calculations and could be left at the discretion of the payment services provider and may include both price (e.g. fraud prevention tools, DCC, loyalty, BNPL, etc.) and non-price elements (e.g. 24 help desk, chat facility, customer support, etc.).

Sections 2.38 & 2.39 – Provision of the summary boxes to merchants

Providing the summary box as part of the monthly merchant billing as well as prominently featuring it on their online account makes good use of existing methods. For those merchants that still elect to receive paper statements, perhaps it should be included there too, at PSP discretion.

See earlier sections for formatting and content suggestions.

ONLINE QUOTATION TOOLS & DCTs

Sections 2.40 to 2.48 – Online quotation tools

I agree with the PSR's view that it would be easy for payment services providers to provide an online quotation tool, as this would be based on the bespoke summary box. I will however stress that online quotation tools can only be effective if the basic content of the summary box is prescriptive, and I believe the PSR intends to do this.

The main difference between the bespoke summary box and the online quotation tool is that the former applies to existing clients (where all the information is known), and the latter may apply to merchants that are not existing clients (and therefore they will have to provide information).

For the online quotation tool, simplicity will be key, and as demonstrated in earlier sections, the input information needs to be easy to understand and sufficient to provide the information required to enable fair comparison (see earlier section on "Input data").

It must be recognised that an online quotation tool will necessarily rely on estimations, and stakeholder agreement on the default values and calculations (see "Input data") will be crucial so that the derived weighted averages are as close to reality as possible. If all PSPs are consistent on the mechanism to be used, and the PSR can direct them accordingly, these remedies will provide merchants with fair comparison.

Sections 2.54 to 2.63 – Digital comparison tools

I agree with the PSR's view to let the industry find develop DCTs. I would however argue that DCTs should not be confined to card acquiring services, but include all payment services providers (i.e. non-cards). I believe I have demonstrated the feasibility of this in earlier sections.

Sections 2.64 to 2.66 – IFR

Currently, some large acquirers still do not comply with the requirements of the IFR and the subsequent (and very clear) EBA guidelines. I believe the PSR remedies related to the provision of bespoke summary boxes could go a long way in enabling the PSR to monitor compliance. It is my belief that the provision of interchange and fee details in the summary box will go a long way in addressing this issue.

CONTRACTS

Sections 2.67 to 2.85 – Indefinite contract duration & trigger messages

The effectiveness of the trigger messages will depend on their simplicity. I welcome the PSR's intent to prescribe the format of the trigger messages, which are replicated below:

> You are approaching the anniversary of our agreement for the provision of card acceptance services for your business on 88 December 8888. You will then be able to shop around for an alternative provider. Your current deal may no longer be suitable for your needs, and you should consider seeking an up to date review or switching to an alternative provider who may be able to save you money or improve the service levels you receive. Information on your current deal can be found in the summary box, and an online calculator at www.website.com. You may also want to consider your POS terminal lease and rental contact arrangements, including the minimum contract end dates when considering options.

> You are approaching the anniversary of our agreement for the provision of payment acceptance services for your business on 88 December 8888. Your current deal may no longer be appropriate for your needs and you will then be able to shop around for an alternative provider. It might be worth seeking an up to date review or switching to an alternative provider who may provide you with better prices and service.

> Our records show that we have been your provider of card acceptance services for [x] years. You can shop around for an alternative provider.
> • You may be able to find a better deal by shopping around alternative providers, potentially saving you money and giving you better service levels.
> • The key terms of your current deal are shown below. Keep this close, as it may help you to spot a better deal. You can also find an online calculator at www.website.com

It is my belief that all options above are too wordy, complex, and unfriendly to all stakeholders (i.e. PSPs and merchants). I welcome the opportunity to comment on the wording in Annex 2 and I suggest the following:

IS YOUR CURRENT DEAL STILL RIGHT FOR YOU?

Could you save money?

Your contract with us for accepting payments expires on *[contract expiry date]*.

Your current deal may no longer be appropriate for your needs and is summarised here *[bespoke summary box link]*. This facility is standard across the industry and also enables you to compare prices and services with other providers.

We invite you to seek an up-to-date review with us at *[contact details]* or through our online calculator at *[website link]*.

Providing this trigger message prominently both on monthly invoices and online merchant accounts will be an effective way to enable merchants to shop around and, in conjunction with other proposed remedies, address the concerns around indefinite or lengthy contract durations.

Sections 2.86 to 2.118 – POS terminals

I support the PSR's recommendation to limit the duration of POS terminal contracts to 18 months, this remedy, in conjunction with the trigger messages should go a long way in addressing the switching challenges faced by merchants with an annual card turnover up to £10M.

In addition, and as per my earlier comments, there may be value in including the following PSPs:

- ePOS providers: these providers already serve the addressable market.
- Soft POS providers: whilst early days, it might be worth considering safeguards for the future.

CONCLUSION

Given the PSR's remit around improving **competition**, supporting **innovation** and **ensuring fairness** in payment systems, this review of proposed remedies is welcomed. Reenforcing why the supply of card acquiring services and other payment services is important to the economy and identifying what the industry and regulators need to do to ensure an effective market is key.

The card payments ecosystem is a complex one. In my response, I have taken great care to present an unbiased view, and I am not affiliated to any particular market player. My aim is to highlight the issues that SMEs face in our constantly evolving and challenging world. It is my belief that the regulators are ideally placed to help them achieve better outcomes, ultimately to the benefits of the end customer. I commend the PSR for advocating more transparency in an ecosystem that is so fundamental to the economy.

I appreciate that, given the amount of change within the payments industry, any regulatory intervention must be proportionate and prioritised. But it also needs to recognise that accelerating societal change is changing the shape of the market currently dominated by cards.

With this in mind, the PSR may wish to consider **establishing a working group of experts** to help prioritise and establish a plan of activities to implement findings of the current review on remedies and to monitor the need for further action. I would be delighted to help.

I hope you find this report of use, and I remain at your disposal should you have any further queries.

[redacted]

CEO Phoenix Edge Ltd

August 2022

[redacted]

Pro Pay

Pro Pay Ltd
[redacted]

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers.

No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

Yours faithfully

[redacted]

For & on behalf of Pro Pay Ltd

Saltpay

SaltPay's Response to the PSR's provisional decision for card-acquiring market remedies consultation paper

August 10th, 2022

Table of Contents

Introduction

SaltPay welcomes the opportunity to respond to the Payments Systems Regulator's ("PSR") consultation paper *"Card-acquiring market review remedies provisional decision"*, published on the 29th of June 2022. Please see below a summary of our response. We remain available to provide further explanations on any of the responses below and look forward to collaborating with the PSR on the evidence-based testing and implementation of any remedies.

About SaltPay

SaltPay is a payment services and software provider, arming local businesses with the technology they need to automate and grow.

We believe that local businesses are essential to any growing society. SaltPay was founded in 2019 with the goal to create affordable, fast, and secure payment solutions that can help these small and medium-sized businesses to better manage and grow their operations. Taken for granted by banks and traditional service providers, as well as the majority of the fintech sector, small businesses have especially struggled to get access to the financial services and software they need.

We deliver one of the few end-to-end, cloud-native solutions on the market as a principal member of Visa and Mastercard both on the issuing and acquiring side, differentiating ourselves from the competition with our own terminal software, sales, logistics and customer service teams delivering dedicated local support. On top of issuing and acceptance, we provide a number of software solutions to help merchants automate and grow, ranging from ePOS and inventory management to customer loyalty, tax-free provisioning, website building and e-commerce solutions.

We're a UK-based, pan-European business with global presence. We are home to over 2,200 employees in 19 offices across 15 countries, serving over 250,000 merchants, including a material presence in the UK. In addition to our SMB solutions, we also offer enterprise services and software such as issuer payment processing, cloud-native payments, and business management Software-as-a-Service to global FinTechs, payment providers, banks, and MNOs.

Executive Summary

Limits on POS Terminals contracts

- SaltPay welcomes the PSR's provisional decision to limit the length of POS Terminal Contracts. Limiting the length of POS Terminal contracts is the most powerful and proportional remedy the PSR can introduce to bolster competition in the card-acquiring market. We believe the PSR should not temper its remedy to accommodate existing business models that rely on the feature of concern. If, under a fairer competitive environment, some players are driven out of the market, this is an efficient outcome that will benefit end-users.

- Limits on POS Terminal Contracts will lead to more transparency and lower prices for merchants. Under current market practices, merchants typically pay termination fees which are more than twice the actual cost of the POS Terminal. Shortening the time window during which POS Terminal providers can recoup their costs will increase price saliency, expose excessive charges, and put downward pressure on prices, while incentivising the reutilisation of POS Terminals.

- Limits on POS Terminal Contracts will improve optionality and flexibility for merchants by introducing more parity in their relationships with payment service providers. In the same way that PSPs can flexibly end their relationships with merchants and change prices, merchants will be able to more flexibly end or renegotiate their agreements. Alternatively, if they are happy with their current provider and offering, they may opt to fulfil their initial term and remain on a monthly rolling contract.

- Limits on POS Terminal Contracts will lower barriers to entry for payment service providers. The reduced prominence of onerous termination fees will reduce customer acquisition costs and lower barriers to entry for new providers in the market who will be able to compete for customers based on their price and quality of service.

- The Specific Direction should explicitly disallow termination charges beyond the initial term. Though it is intuitive that monthly rolling contracts would not be subject to any termination costs given that they expire monthly, it would still be worthwhile to explicitly proscribe any such extraneous termination charges in the Specific Direction to pre-empt any attempts at circumvention.

- SaltPay believes the cap for micro-merchants should be lowered to six months to account for their significantly lower resources and bargaining power when compared with larger SMEs with a turnover of up to £10 million. This would also enable them to benefit from their contractual protections under the PSRs 2017 which are currently being circumvented by acquirers via the tying of POS Terminal Contracts.

- There is a material commercial difference between micro-enterprises and SMEs with a turnover of up to £10 million. Micro-merchants are the most heavily impacted by the feature of concern, as they have limited time to dedicate towards negotiating their current deal or searching for better providers and their turnover does not afford them enough bargaining power to meaningfully negotiate with PSPs.

- There is a material regulatory difference between micro-enterprises and SMEs with a turnover of up to £10 million. The termination conditions of POS terminal hire contracts nullify the regulatory protections micro-enterprises should be receiving according to the PSRs 2017. Given the magnitude of the differentiation in pricing outcomes for merchants with turnover lower than £380,000, SaltPay believes that applying the shorter contractual limit for this category of merchants will significantly contribute to mitigating the feature of concern.

- A shorter contractual limit for micro-merchants will not unduly increase the compliance cost of the remedy. Acquirers, and their partner POS Terminal providers, already differentiate the length of their terminal contracts and associated termination conditions according to a merchant's turnover, among many other factors. Furthermore, the PSRs 2017 already obligates acquirers to differentiate between micro-merchants and larger providers.

- SaltPay believes the PSR should, at a minimum, recognise the material differences between micro-merchants and larger SMEs and commit to review the need to introduce a shorter POS Terminal Contract limit for micro-merchants. SaltPay would encourage the PSR to commit, in its final decision, to implementing a stronger contractual remedy for micro-enterprises as a potential additional intervention in the card-acquiring market if, after the implementation period, it does not see sufficient evidence of improvement in competition, pricing, and service outcomes.

Summary boxes and online quotation tools

- SaltPay welcomes the PSR's decision to focus on the implementation of bespoke summary boxes as opposed to generic summary boxes. The latter can lead to the creation of an artificial benchmark, thereby undermining the growing diversity of price and non-price factors offered by PSPs to suit merchants' heterogenous needs.

- Bespoke summary boxes will facilitate dealings between merchants and sales representatives. For sales field agents, they will provide access to the content of the merchant's current deal and allow the provision of a more tailored service. For merchants, they will simplify comparison and enhance their ability to spot discrepancies between verbal representations made by sales representatives and the final deal, thereby reducing the risk of mis-selling.

- SaltPay recommends that the PSR provide strict guidelines regarding the content to be provided in the summary boxes and supervise the accuracy of the information. This would create the minimum level of standardisation necessary to enable merchants to compare summary boxes provided by different providers. Moreover, it would prevent obfuscation tactics that dilute the information provided through summary boxes.

- It is SaltPay's view that information regarding the termination fees payable by the merchant at the time should be included in the bespoke summary boxes. This not only helps the merchant think strategically with a view to future-proof their business but also reduces the burden on trigger messages to be overwhelmingly informational.

- While online quotation tools can be an effective aid for merchants in finding alternative providers of card-acquiring services, SaltPay echoes its opinion on the Direct Comparison Tools ('DCTs') proposed in the initial Remedies consultation. That is, online quotation tools should emerge as an organic and market-driven solution that leverages the increased transparency flowing from bespoke summary boxes.

Trigger messages

- SaltPay agrees with the mandate of trigger messages and reiterates its belief, as enumerated in its response to the PSR's initial remedies consultation, that this remedy has great potential to foster competition in card-acquiring. Still, for this potential to materialize into actual benefits, SaltPay recommends that the PSR make some changes to its initial approach to maximize the effectiveness of the remedy.

- In terms of delivery, SaltPay believes that the trigger messages should be eye-catching, making use of colours that stand out in the monthly invoice, such as red or blue. Additionally, the emphasis of the text shouldn't be on cost in detriment of quality of service or value-added services. Finally, the message should be drafted by the PSR and in the PSR's voice to avoid merchant confusion and maximize trust of the information being relayed.

- Regarding timing, SaltPay's view is that the periodicity and moment in which prompt messages are sent should depend on whether the merchant is on a fixed-term contract or not. If in a fixed term contract, we recommend that the merchant only receive trigger messages in the last months of his term. If in under a rolling contract, we suggest that merchants receive prompt messages every month with their billing invoices.

- If during the monitoring period, the PSR finds that there isn't sufficient merchant engagement with monthly billing invoices, we recommend that the PSR experiment with a different communication approach, such as a standalone message sent to the merchant, physically and/or digitally.

Scope of the Specific Directions

- SaltPay supports the PSR's decision to implement the remedies through a Specific Direction aimed towards the largest providers of card-acquiring services, which possess around 95% of the market share. This avoids the greater difficulty of obtaining approval to issue a General Direction.

- SaltPay also believes that it would be contrary to the interests of increased competition in the card-acquiring market to require PSPs outside of the PSR's list of the largest providers to implement the remedies. The features of concern targeted by the remedies can be addressed by focusing on the largest providers and as such imposing compliance on smaller PSPs unnecessarily raises the barriers to entry into the card-acquiring market that they face.

- Despite the implementation of the remedies through a Specific Direction aimed at the largest providers, SaltPay is confident that market practice will shift towards the standards created by these directions. In other words, once merchants are accustomed to bespoke summary boxes, more equitable POS terminal contract lengths, and trigger messages, they will demand all PSPs in the card-acquiring market to be in line with such practices.

- For the purposes of determining the recipients of the Specific Direction, SaltPay recommends that the PSR use an updated list of the largest providers that reflects their current market shares. This is because new entrants have entered the market in recent years and have grown to serve thousands of merchants in a short period of time.

Implementation Period(s) of the Specific Directions

- SaltPay supports the PSR's view that a 3-month period is a reasonable timeframe for the implementation of the proposed remedies.

- Additionally, SaltPay believes that the implementation period for each remedy should be assessed independently. If it can be reasonably demonstrated that a period of longer than 3 months is required for the implementation of a particular remedy, then only the timeframe for that remedy should be extended.

- However, SaltPay does not believe that any extensions of the 3-month implementation period are warranted for the proposed remedies. For limitations on POS terminal contracts, PSPs already provide deals of highly varied lengths and have internal processes to facilitate this diversity. As such, a contractual remedy in this regard would not require a longer implementation period.

- PSPs should already have access to the data and data management capabilities needed to produce bespoke summary boxes. Therefore, presenting the same to a merchant using a format prescribed by the PSR would not present onerous implementation burdens that could warrant an extension of the 3-month period.

- Lastly, trigger messages are envisioned as short notifications sent in a standardised form on behalf of the PSR. As PSPs already communicate with merchants in various ways, whether through billing statements, online portals, email or post, implementing trigger messages would not require an effort that would justify extending the implementation period beyond 3 months.

Finals remarks for the PSR's consideration

- The cost-benefit analysis conducted by the PSR is of great importance to ensure the proportionality of the proposed remedy package. In our view, it's important that this analysis isn't excessively biased towards costs given the greater certainty in tabulating them. While more complex to assess, we're confident of the far-reaching beneficial consequences of these remedies for the market and would encourage the PSR to include all sources of benefits in its analysis. For example, SaltPay recommends that the PSR consider the beneficial cross-effects between remedies, in particular between summary boxes and trigger messages.

- In our view, it's important that the PSR address both *actual* and *perceived* barriers to switching. Even after the introduction of remedies, some merchants may be deterred from switching because they still perceive it as a hassle. Drawing inspiration from the Current Account Switching Service, SaltPay recommends the PSR engage in a messaging campaign to inform SMEs of the potential benefits to switching and how it has become easier, as well as carry continuous research and surveys to track progress. Additionally, the PSR could undertake a greater effort in encouraging merchants to bring complaints of mis-selling and other inadequate behaviour of PSPs to the attention of the Financial Ombudsman.

- Lastly, SaltPay encourages the PSR to approach this remedy package as a first version to iterate over based on the findings from the monitoring period. Some recommendations for future changes, if not applied for this initial version, include shortening the POS terminal contractual limit to six months for micro-merchants, including information on alternatives to cards in summary boxes, and send trigger messages as standalone messages.

Limits on POS Terminal Contracts

SaltPay welcomes the PSR's provisional decision to limit the length of POS Terminal contracts

1. SaltPay welcomes the PSR's provisional decision to limit the length of POS Terminal contracts to a maximum initial term of 18 months and monthly notice thereafter. Long term contracts that automatically renew and have onerous termination fees are the main feature of concern identified by the PSR that deters SMEs from switching providers. We support the decision to no longer pursue the implementation of POS Terminal interoperability, a remedy far more complicated and resource intensive to introduce, which would have delayed the mitigation of the feature of concern as well as potentially causing unintended consequences.

2. Limiting the length of POS Terminal contracts is the most powerful and proportional remedy the PSR can introduce to bolster competition in the card-acquiring market. It requires a simple change to the length and termination conditions of POS Terminal contracts, all of which already vary considerably per provider and per merchant type. [redacted] urbing excessive termination charges by placing limits on POS Terminal contracts will thus greatly contribute towards improving SME switching.

3. There are three main reasons for this that we would like to emphasise below. As explained throughout the rest of this section, we suggest that the PSR should focus on introducing a remedy that solves the feature of concern it identified in the market review. While the remedy needs to be proportional, this does not mean the PSR should temper its remedy to accommodate for existing business models that rely on the feature of concern. If, under a fairer competitive environment, some players are driven out of the market, this is an efficient outcome that will benefit end-users.

i) Limits on POS Terminal Contracts will lead to more transparency and lower prices for merchants

4. Multiple stakeholders have stressed that shortening the maximum term of POS terminal hire contracts would lead ISOs and other POS Terminal providers to frontload the terminal cost to protect against the risk of not being able to amortise it over a longer period, thus leading to higher monthly rental fees and terminations costs. We believe this argument fails to consider two important points.

5. Firstly, it assumes that POS terminals cannot be reused and thus their cost must be recouped via a single merchant. However, the redeployment of POS Terminals is a well-established market practice. Multiple players refurbish terminals once a relationship with a merchant ends so they can be reutilised, thus maximising the value that can be extracted from the hardware. While still operating as an ISO for two of the largest UK acquirers, over [redacted] out of all RMS terminals deployed in 2020 and 2021 were refurbished units, demonstrating the viability of the reutilisation of terminals at scale for an ISO's business model and operations. Providers usually charge merchants the full price of the terminal if they fail to return it after they have terminated precisely because that valuable hardware that can be reutilised.

6. Furthermore, there are players in the market which offer no initial term and no termination fees on their terminal hire contract on the basis that if the merchant decides to terminate the agreement, their POS Terminal can simply be collected and reutilised with another merchant. If the length of fixed term contracts is reduced and their accompanying termination costs limited, it is nevertheless possible that some ISOs will continue to recoup the same cost within a shorter period. If they do,

they will be outcompeted by providers that can reuse terminals and thus offer lower fees and more favourable contracts for merchants, which will in turn pressure them to lower prices.

7. Notably, this remedy would incentivise the reutilisation of POS terminals, reducing hardware waste and making the industry more environmentally sustainable. An industry practice could evolve whereby terminals receive different refurbished grades and can be sold to merchants with less advanced needs at a lower price. This could lead to lower prices and more options for merchants, thus addressing the feature of concern, while also fulfilling the PSR's commitment to scrutinise any environmental issues related to payments as part of its Strategy.

8. Moreover, suggesting ISOs must be able to recoup their terminal costs via long contracts and termination fees to have a sustainable business model is not a strong argument. It does not sufficiently account for the inherent level of risk in every business transaction. Even without the ability to charge termination fees after an initial term, ISOs can still recoup their cost via monthly rental fees as long as the merchant does not churn, which suggests that they are satisfied with the service. When coming to an agreement with a POS terminal provider, the merchant incurs the risk that they might be dissatisfied with the product or service but are still liable to pay within the initial term.

9. Similarly, it is justifiable for ISOs to incur the risk that once the merchant is free to leave, it will have to be the quality of their offering that prevents the merchant from churning and enables the ISO to receive more terminal rental fees. This incentivises ISOs to diversify their revenue mix and increase the quality of their service by providing value-added services to merchants [redacted] SaltPay believes that the sustainability of a business model shouldn't be anchored on lock-in strategies that the PSR found unduly deter SMEs from switching. In other words, ISOs' beneficial impact on the card-acquiring market is contingent on their ability to diversify away from terminal fees to other sources of revenue such as that from value-added services.

10. Secondly, even if one accepts that reducing the length of terminal hire contracts will raise the monthly rental price, this can still lead to a lower overall cost paid by merchants. Most ISOs include termination fees in their contracts which are simply the monthly terminal rental multiplied by the remaining months on the fixed term. For example, if a merchant wants to terminate their contract and move to a different provider on the 4^{th} month of a 24-month contract, they will still have to pay the terminal rental for the remaining 20 months. Equally, if a merchant wants to quit on 4^{th} month of a 6-month contract, they will be liable for the remaining two months. Irrespective of the length of the initial term, multiple players in the market bear no terminal cost risk as they ensure that they recoup that cost. Condensing the time available for this claimed cost-recovery does not leave a merchant or ISO worse off. Moreover, termination fees linked to terminal rental are often coupled with further fixed termination fees (often framed as administration fees) as well as penalty fees for the overall economic loss of the contractual relationship.

11. [redacted] herefore, it is not reasonable to claim current contractual terms are a necessary part of a reasonable business model based on cost-recovery.

12. A potential increase in monthly rental fees because of the above measures is likely to lead to a reduction in the total amount merchants are liable to pay for terminal hire services. Higher terminal

fees within the 6-month initial term will increase merchant's price salience, i.e., their perception of the price-quality trade-off of the POS terminal and its accompanying service. This will in turn increase the price sensitivity of SMEs leading to a more elastic demand for POS terminals, encouraging merchants to substitute towards cheaper providers and making the market more competitive.

13. Finally, as stated above, SaltPay encourages the PSR to dismiss arguments that a contractual remedy should not be introduced because the business models of certain providers, and ISOs in particular, will be negatively affected. While the PSR needs to be mindful of proportionality, this does not mean diluting the strength of a remedy to protect existing business models which rely on the feature of concern identified by the PSR.

ii) Limits on POS Terminal Contracts will improve optionality and flexibility for merchants by introducing more parity in their relationship with payment service providers

14. Multiple industry stakeholders have argued that limiting the length of POS Terminal contracts will reduce options for merchants who may prefer long-term contracts. However, we believe this argument is not sufficiently nuanced and that mitigating the lock-in effect of long-term contracts with onerous termination fees will materially increase optionality and flexibility.

15. Long-term contracts should not be confounded or seen as synonymous with a stable and consistent payment service. Firstly, long-term POS Terminal contracts typically still enable providers to regularly change their pricing with little notice or terminate the agreement for a variety of vague and malleable reasons, thus nullifying any consistency a merchant would otherwise expect from a long-term agreement. Secondly, even when they are able to provide such stability, they are almost universally coupled with onerous early termination fees, which deters merchants from switching, thus reducing their options and flexibility.

16. Limiting POS Terminal contracts will serve to bring greater parity between a merchant and their payment service provider. In the same way that PSPs can flexibly end their relationship with merchants and change prices, merchants will be able to more flexibly end or renegotiate their agreements. Alternatively, if they are happy with their current provider and offering, they will opt to fulfil their initial term and remain on a monthly rolling contract.

17. Given how flexibly merchants will be able to switch providers, PSPs will have an additional incentive to maintain and even improve upon their business offering, as well as keep prices stable or even reduce them as the market becomes more efficient. Therefore, SaltPay is confident that limiting POS Terminal contracts will contribute to the stability of service that many merchants look for. Moreover, it will incentivise providers to continue improving their service and offering to retain a customer, rather than locking them in and subsequently disregarding them. The latter model, as is prevalent currently, enables PSPs to reduce service levels and increase prices with the knowledge that merchants are unlikely to churn because of termination fees.

iii) Limits on POS Terminal Contracts will lower barriers to entry for payment service providers

18. Given the prevalence of onerous termination fees for POS terminal contracts, buying merchants out of their previous contract has evolved as a market practice to acquire customers. As recognised by the PSR in the Final Report, PSPs and ISOs are increasingly offering to reimburse merchants for their early termination costs [redacted][1].

[redacted]

19. This often means such providers are operating at a significant net loss during the first months of their merchant relationships. Therefore, providers that have the capital to afford such customer acquisition strategies are at a distinct advantage compared to new players in the market. These new players cannot access merchants stuck in long-term contracts because they do not have the resources to buy out merchants from their existing contracts.

20. Additionally, some of these providers lock merchants into long-term contracts as well, to ensure they can make up this reimbursement cost, reinforcing the feature of concern. Therefore, the reduced prominence of onerous termination fees will reduce customer acquisition costs and lower barriers to entry for new providers in the market who will be able to compete for customers based on their price and quality of service.

The Specific Direction should explicitly disallow termination charges beyond the initial term

21. As previously stated, onerous termination fees are the main barrier to switching for SMEs. SaltPay believes the current draft of the Specific Direction could be made clearer by explicitly disallowing the charging of any direct or indirect termination costs beyond the applicable initial term. This is important to ensure the remedy has the impact it is intended to have.

22. While it is intuitive that rolling contracts would not be subject to any termination costs given that they expire monthly, it would still be advisable to explicitly state that in the Specific Direction to avoid any attempts at circumvention and defences of such circumvention on the basis that the direction was not sufficiently clear. For example, it remains unclear whether a provider could charge an automatic expiry of contract fee if a merchant decides not to roll onto a month and gives their notice. Another example could be the raising of the Monthly Minimum Service Charge applicable to a monthly rolling contract to an onerous and disproportionate amount.

23. This type of circumvention could potentially render the contractual remedy entirely ineffective. Long term contracts are onerous precisely because of the onerous termination fees they are coupled with. If this is simply shifted to the rolling contract, then the feature of concern remains. In light of this, SaltPay recommends that the PSR include a provision in the Specific Direction with wording similar to Regulation 51 of the PSRs 2017 prohibiting termination charges for framework contracts after the contract has been in force for six months. Below is some suggested phrasing:

> *"The Directed PSP may not charge the Merchant for the termination of a POS terminal contract after the expiry of the initial minimum term."*

POS Terminal Contracts for micro-merchants should be subject to a shorter limit of six-months

24. As outlined above, shortening the length of POS Terminal Contracts is the most effective remedy the PSR can introduce to improve competition in the card-acquiring market. However, SaltPay believes the cap for micro-merchants should be lowered to six months to account for their significantly lower resources and bargaining power when compared with larger SMEs up to £10 million. This would also enable them to benefit from their contractual protections under the PSRs 2017 which are currently being circumvented by acquirers via the tying of POS Terminal contracts.

i) There is a material commercial difference between micro-enterprises and SMEs with a turnover of up to £10 million

25. Firstly, as the PSR has recognised, there is a material difference in resources and bargaining power between SMEs, even within the £10 million turnover range. A merchant on the lower end of the range (for example, with a turnover below £380k) is likely to only have a few employees who exert multiple functions around the business, with payments being only a subset of the procurement

function. Therefore, micro-merchants are the most heavily impacted by the feature of concern, as they have limited time to dedicate towards negotiating their current deal or searching for a better provider. In addition, their turnover does not afford them with enough bargaining power to meaningfully negotiate with PSPs.

26. A merchant on the higher end of this turnover bracket (for example, with a turnover above £5 million) is likely to have a person or small team dedicated to procurement if not specialised on the financial services utilised by the company. They are therefore better placed to negotiate a deal with their current provider, periodically consider switching, and leverage their turnover to get a reduced rate of favourable bespoke deals. While these merchants are nonetheless still at a significant informational and bargaining power asymmetry when dealing with PSPs, the discrepancy is not of the same order of magnitude as micro-merchants.

27. [redacted]

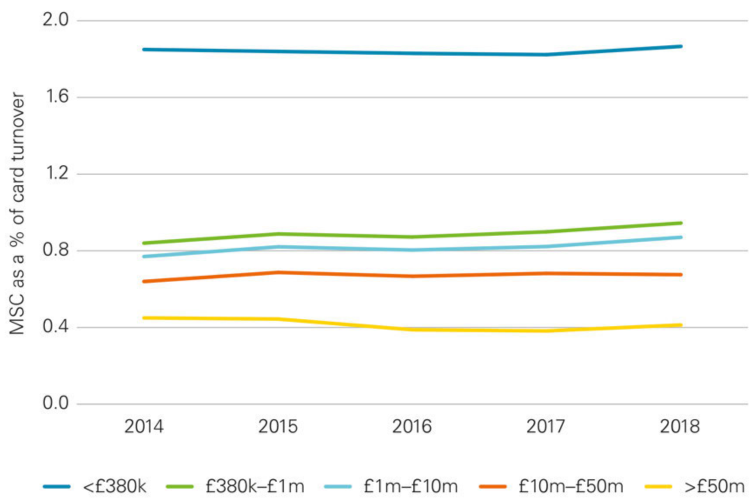
28. Greater switching mobility was observed for larger businesses, with the largest merchants having switched payment acceptance providers twice over the last five years. This is 5 times as many switches as single-employee and single-outlet businesses, who on average only switch providers once every decade.

[redacted]

[redacted]

30. Moreover, this differentiation is made most apparent by the PSR's own findings in the Final Report. The figure below demonstrates differing pricing outcomes within the SME range. It shows how merchants with a turnover below £380k have an average MSC approximately twice as large as others within the £10 million range.

Figure 10: Prices paid for card-acquiring services by merchants of different sizes



31. This data indicates a threshold below which merchants have considerably worse pricing outcomes. This suggests a threshold of resources, time, and bargaining power which, when crossed, unlocks a lot of potential savings for merchants. While it is difficult to define at what point that threshold is crossed, it is likely associated with a certain level of turnover and whether the business has an employee with enough time to dedicate towards a degree of payments optimisation. Nevertheless,

[redacted]

this is further evidence of the need to differentiate between micro-merchants and larger SMEs within the £10 million threshold.

32. In order to adjust the remedy to account for this differentiation, we argue the PSR should look to align the regulatory protection from termination fees that micro-merchants enjoy with the limit on POS terminal contracts, by capping initial terms for this merchant segment at 6 months, with rolling terms thereafter and a prohibition on termination charges.

ii) There is a material regulatory difference between micro-enterprises and SMEs with turnover up to £10 million

33. As acknowledged by the PSR in the Final Report, there is a statutory right under regulation 51(1) of the PSRs 2017 that enables merchants to terminate their card-acquiring services contract at any time – unless they have agreed to a notice period of at most one month. Regulation 51(3) also provides that, once the contract has been running for at least six months, the payment service provider can't apply a termination fee.

34. This applies with no option to derogate if the payment service user is a consumer, small charity, or micro-enterprise. The FCA defines micro-enterprises as enterprises which (a) employ fewer than 10 persons and (b) has a turnover or annual balance sheet that does not exceed €2 million[3]. For payment service users larger than micro-enterprises, the payment service provider may agree with business customers to derogate from the regulation and utilise different terms in relation to rights and obligations (referred to as the 'corporate opt out'), including longer initial terms and termination rights. This has led acquirers to adopt different card-acquiring services contracts for merchants of different sizes.

35. The purpose of the regulation is to protect users from getting tied into long-term contracts and onerous termination fees. Article 38(2) of PSD2 afforded Member States the discretion to apply the provisions to micro-enterprises in the same way as to consumers, which the UK chose to exercise. The inclusion of micro-enterprises can thus be interpreted as an acknowledgement of the PSR's feature of concern identified in the Final Report, namely that because of a limitation in time, resources, and bargaining power, micro-merchants (which represent the majority of merchants in the UK) are not well-positioned to secure a favourable deal with their payment service provider. A consequence of this is that the merchant will not exhibit the switching behaviour indicative of a healthy and competitive market.

36. Importantly, however, these regulations do not cover terminal lease contracts, which remain unregulated. In fact, Schedule 1 Part 2(j)(vi) of the Payment Services Regulations 2017 specifically exempts from their scope the provision and maintenance of terminals and devices used for payment services.[4] This is because terminal providers are not classified as payment service providers, despite the fact that the provision of card-acquiring services necessitates a POS device. As a result of this regulatory gap, POS terminal hire agreements that are offered in combination with acquiring contracts have the effect of tying in merchants into their (regulated) acquiring relationship. This phenomenon has been identified by the PSR throughout the Card-Acquiring Market Review.

37. For example, we have seen micro-enterprises that have a 6-month initial term with their acquirer but have also signed an agreement with the acquirer's ISO for a terminal lease lasting 48 months with high termination costs. Since the ISO's terminal only works with their partner acquirer, the *de facto* consequences of terminating their acquiring agreement are the POS hire agreement's termination fees (which could present a high cost for the SME).

---

[3] FCA Handbook "micro-enterprises"
[4] The Payment Services Regulations 2017 - Schedule 1

38. Therefore, the length and terms of POS terminal hire contracts nullify the regulatory protections micro-enterprises should be receiving according to the PSRs 2017. The PSR thus needs to act to apply the same requirements on POS terminal hire contracts as acquiring contracts so that they can be agreed to and terminated on the same conditions. This constitutes the basis by which the PSR can *legally* tie these *effectively* tied agreements. In lieu of regulatory change of the PSRs 2017 which would require a legislative process, the PSR can utilise its FSBRA powers to introduce this requirement as a competition remedy. This is an important opportunity to ensure that the legislative objective of the above regulations, as approved by Parliament, are fulfilled for micro-enterprises.

39. Given the magnitude of the differentiation in pricing outcomes for merchants with turnover lower than £380,000, SaltPay believes that applying the shorter contractual limit for this category of merchants will significantly contribute to mitigating the feature of concern and aligns with the PSR's findings in the Final Report.

iii) A shorter contractual limit for micro-merchants will not unduly increase the compliance cost of the remedy

40. It may be argued that having a single limit for POS Terminal Contracts of 18 months will be less of a compliance burden on acquirers and the multiple type of POS Terminal providers they partner with. However, SaltPay believes that that a lower contractual limit is a proportionate way of reflecting the significant differentiation between micro-merchants and other SMEs within the £10 million range.

41. Firstly, it must be emphasised that, much like any limit on POS Terminal Contracts, the compliance burden will be placed on the Directed PSPs and thus apply only indirectly to the POS Terminal provider. Therefore, the PSPs will have the responsibility of ensuring that the POS Terminal contracts which are coupled with their acquiring solution are complaint with the Specific Direction. Since the Specific Direction will apply to the largest providers in the market, it will not represent a significant cost for them to differentiate based on turnover, which is among the key pieces of information they already gather on prospective merchants.

42. Secondly, PSPs already differentiate per merchant size in their offerings. As made clear by the PSR's final report, PSPs and their POS Terminal Providers often have different offerings depending on the size of the merchants, which includes differences in contract lengths and applicable termination fees. This requires an agreement between the PSP (typically an acquirer) and the POS Terminal provider (typically an ISO) on their combined market strategy and how they will differentiate based on merchant size, as well as multiple other factors. Therefore, a Specific Direction that requires the Directed PSPs to add a further differentiation of merchant sizes (i.e., below £380,000, above £380,000 – £10 million, and above £10 million) will not be onerous or even materially increase the compliance burden on Directed PSPs.

43. Thirdly, PSPs already have a similar compliance burden under the above mentioned PSRs 2017. The regulations state that PSPs cannot derogate from the protection under the framework contracts unless the payment service user is not a consumer or a micro-enterprise. If they are not, then providers typically include a corporate opt-out clause within the merchant agreement. The proposed additional remedy would essentially require the same process of identification based on a merchant's category as required by regulation.

iv) At a minimum, SaltPay believes the PSR should recognise the unique position of micro-merchants in the payments ecosystem and commit to review the need to introduce a shorter POS Terminal Contract limit.

44. The PSR recognised the material differences between micro-merchants and other SMEs in its Final Report, including the protection micro-merchants are supposed to benefit from under the PSRs 2017. While the PSR decided not to introduce a remedy that prevents the ongoing regulatory circumvention, it did not provide a sufficient level of justification.

45. Therefore, if the PSR ultimately decides not to introduce a shorter contractual limit for micro-merchants, we believe there should be a clear justification as to *why* this additional remedy was considered but ultimately not pursued. Additionally, given the remedy under the Provisional Decision will not close the regulatory and commercial gap mentioned above, SaltPay would encourage the PSR to commit, in its final decision, to keep the need for a stronger contractual remedy for micro-enterprises as a potential additional intervention in the card-acquiring market if, after the implementation period, it does not see sufficient evidence of improvements to competition, pricing and services outcomes to end-users within the card-acquiring market.

Summary boxes

46. SaltPay agrees with the PSR on the value of introducing bespoke summary boxes in order to increase transparency in the card-acquiring market. More specifically, SaltPay welcomes the introduction of bespoke key price and non-price information to be sent individually to each merchant and displayed prominently in their online account, such that they can more efficiently compare the spectrum of available offers.

Generic summary boxes would not improve merchant ability to search and switch between acquirers

47. It is worth restating that generic summary boxes run the risk of undermining innovations in price offerings made to merchants by card-acquirers, in particular the quality of service (settlement times, authorisation rates, fraud prevention, etc.) and value-added services (ePOS offering, loyalty, booking management, etc.). The heterogeneity of merchant needs among micro-enterprises, small businesses, and large and medium businesses with annual card turnover up to £50 million creates the risk of a disproportionate emphasis on headline prices and the entrenchment of market-distorting benchmarks.

48. In other words, generic summary boxes, through the standardisation they would require, might inadvertently, but nonetheless adversely impact the functionality of the card-acquiring market for merchants. Unlike generic summary boxes, bespoke summary boxes would inform merchants of their entire deal, enhancing their ability to compare the assess which acquiring services on offer and determine would best meet suit their unique business needs. As such, the PSR's move towards the implementation of bespoke summary boxes alone is a welcome development.

Bespoke summary boxes empower merchants to switch and bargain for better deals

49. Bespoke summary boxes would significantly facilitate SMEs' switching processes by removing unnecessary friction in the procurement and negotiation process with alternative providers, especially where it involves sales representatives.

50. Bespoke summary boxes put sales representatives in a better position to offer a more personalised deal to potential merchant customers thanks to readily available information on the terms of any existing agreement the merchant might have with another provider. Naturally, this improves the state of competition in the card-acquiring market as merchants have increased access to deals that are best suited to their unique needs. The result is that card-acquirers can identify merchants' requirements more easily, comparing the terms of their existing deal to what the PSP is able to offer.

51. From the merchants' perspective, this provides increased awareness of their costs during the duration of their agreement, reducing their exposure to the risk of mis-selling. In the card-acquiring market, mis-selling typically occurs when sales representatives make verbal representations of a specific deal during their initial visits to a merchant which are not subsequently reflected in the final contract. Out of trust in the sales representatives during these initial in-person visits, merchants may find themselves bound by contractual terms they never intended to be bound by.

52. Prominently displayed bespoke summary boxes would enable merchants to identify discrepancies between what was initially verbally agreed and the final contract. This is especially supported by the PSR's recognition that interlocking trigger messages and summary boxes provides merchants with the necessary information to make informed decisions and mitigate against merchant inertia that is caused by *perceived* and *actual* barriers.

53. Despite the level of flexibility required in the content of bespoke summary boxes to allow PSPs to outline their quality of services or value-added offerings, we recommend that the PSR keep in mind the importance of ensuring a sufficient level of standardisation in bespoke summary boxes. Merchants will only trust and make use of these summary boxes if they are confident that the material contained therein will help them objectively compare the offers of different PSPs, and a degree of regulator-led standardisation and oversight could help bolster that trust. As such, SaltPay's position is that the PSR should form strict guidelines as a minimum threshold to ensure the quality of information supplied in the summary boxes and supervise their accuracy.

SaltPay recommends that summary boxes also include termination costs

54. We recommend that summary boxes also outline any fees a merchant would have to pay were they to terminate their contract with the PSP. As summary boxes aim to give merchants adequate snapshots of their deal at a given point in time, the inclusion of termination fees in those boxes allows merchants to track the falling cost of termination through the term of the contract. In turn, they can make strategic decisions aimed at future-proofing their business.

55. This recommendation also serves the complementary purpose of relieving the information-sharing burden which would otherwise fall on trigger messages. There are concerns that trigger messages could become overwhelmingly informational, though their primary purpose is to provide merchants with clear notifications when they are free to switch away from their current deals without incurring any termination fees. Including termination fees in the bespoke summary box would relieve this pressure on trigger messages, allowing them to be tailored more precisely to their primary intended function of grabbing merchants' attention, and engaging them.

Information on alternative payment methods to cards would be a welcomed addition

56. SaltPay welcomes the PSR's acknowledgement of the impracticalities that accompany generic summary boxes including the likelihood that they will unduly oversimplify offerings given the heterogeneity of merchant needs. It is our opinion that the PSR should introduce different categories to outline different payment methods that PSPs enable merchants to accept. As rightfully acknowledged by the PSR, this would help ensure that summary boxes are not distorted in favour of card-based payment methods. This will become increasingly important as account-to-account and cryptocurrency payments become more common.

57. This is especially important in light of the PSR's work on unlocking account-to-account payments at point of sale as evidenced by the Digital Payments Initiative and the PSR's outlining of unlocking A2A as a priority in its Annual Plan 2022-23. Additionally, given that the CMA has mandated that the nine largest banks provide VRPs beyond sweeping use-cases, the PSR should factor Open Banking solutions in payments when considering the standardisation of bespoke summary boxes. The implementation of VRP solutions recently introduced by certain players to enable customers to make purchases via instant bank transfer at point-of-sale, and set up recurring payment mandates for future purchases, highlights the growing prevalence of this trend.

58. Limiting bespoke summary box information to card types fails to acknowledge the emergence of alternative (and perhaps more socially optimal) payment solutions. This stands as a disservice to merchants who would otherwise be able to future-proof their business and steer consumers towards more advanced, cost-effective payment methods. These alternatives should be displayed alongside available card-types and should not be included as additional services.

Online quotation tools should be allowed to emerge as a market solution to avoid unintended consequences

59. While the PSR's introduction of quotation tools is intended to provide merchants with a more effective tool to obtain initial quotes from any provider, they should be seen as a market-driven solution. We would like to reiterate the views we shared on the proposed Digital Comparison Tools ('DCTs') in our response to the PSR's card-acquiring market review initial remedies consultation. With the implementation of bespoke summary boxes and the greater transparency that will create surrounding the available card-acquiring deals offered by different PSPs, we believe that online quotation tools are likely to emerge organically. Therefore, we welcome the PSR's recognition that this will also enable merchants without summary box information to have access to a mechanism that assists in estimating an initial quotation for those services.

60. However, it is important to be wary of the limitations of standardising the process of obtaining a quote from providers of card-acquiring services. Firstly, as highlighted above, the diversity of offerings to merchants on both price and non-price factors is growing to cater to the heterogeneity of merchant needs. Implementation of online quotation tools in a form that prioritises certain price factors for the sake of brevity risks obscuring bespoke and cutting-edge services offered by PSPs to merchants. Moreover, online quotation tools might lag changes in the market, thereby inadvertently restricting the ability of card-acquirers to compete through service innovations that benefit merchants.

61. Secondly, online quotation tools should not be seen as a replacement to the direct contact between merchants and sales representatives. Field agents remain best placed to understand merchants' needs, and to empower them by connecting them with the suite of tools and services most relevant to their businesses. The improved context that sales representatives will enjoy in having access to bespoke summary boxes of merchants' current deals will be negated if merchants are encouraged to look for new deals solely through quotation tools that struggle to list all the benefits that a new PSP might be able to offer a given merchant.

62. We suggest that the PSR weigh the above limitations when considering the development of online quotation tools in order to avoid the introduction of unintended drag on competition in the market. A regulatory-driven approach to the creation of such tools is also likely to require extensive top-to-bottom industry coordination and delay the mitigation of the feature of concern. On the other hand, if online quotation tools emerge as market-driven solutions built upon the implementation of bespoke summary boxes, the PSR will retain the ability to regulate their content and accuracy standards ex-post. OfCom, for instance, has in this manner successfully enabled the creation of privately managed online service comparison websites which have gained the trust of end-users .

Trigger messages

64. SaltPay welcomes the PSR's decision to mandate the inclusion of trigger messages in monthly invoices sent to merchants. Trigger messages have the potential to provide timely prompts to merchants on their ability to switch and how to proceed if they decide to do so. Increasing merchants' awareness of their switching conditions will make changing providers easier, which in turn will improve competition in the card-acquiring market.

65. Still, these promising benefits to competition will only materialise if the trigger messages are adequately deployed. We provide recommendations below on the content, timing, and vehicle of trigger messages that in our view maximize the effectiveness of this proposed remedy.

Trigger messages should be eye-catching, balanced, and written in the PSR's voice

66. This remedy will only be as effective as the engagement it elicits from merchants to reconsider their current provider with other available options in the market. As such, a potential pitfall for the effectiveness of trigger messages is a scenario where the merchant ignores or doesn't read the prompt. Below are three suggestions to avoid this pitfall.

67. Firstly, SaltPay suggests that the trigger message be prominently placed as a box at the top of the monthly billing invoice and in a colour that stands out such as red or blue. This would ensure that the merchant doesn't miss the message if they are skimming the invoice.

68. Secondly, there is a risk of over-emphasising cost over quality in the wording of the message. As mentioned in our response to the initial remedies consultation, a disproportionate focus on price factors to the detriment of non-price factors such as quality of service (settlement times, authorisation rates, fraud prevention, etc.) and value-added services (ePOS offering, loyalty, booking management, etc.) could lead to excessive competition based purely on price factors, potentially causing a race to the bottom in the provision of card-acquiring services. As such, we suggest that the use of balanced language in the message with respect to the importance of price and non-price factors.

69. Finally, SaltPay recommends that the trigger message is made in the PSR's own voice. Communicating the possibility of switching in the current provider's voice would confuse the merchant as they would struggle to understand why their current provider seems to be doing the bidding of other acquirers. This confusion could cause mistrust and, as such, would undermine the trust in the message and hamper its effectiveness. SaltPay's view is that this message should be a PSR statement in which the merchant can clearly understand that it's a message meant to help him switch. In this light, we also suggest that the PSR includes its logo on the top right corner so that the merchant can more easily recognize that this message is coming from the regulator.

70. Given the above, SaltPay's preference out of the options provided by the PSR is Option 1. Still, applying the above recommendations, we believe that this option could be improved by i) framing the message in a red box, ii) adding the PSR logo in the top right corner, iii) extending the bold to "giving better service levels", iv) adding "or additional products", v) drafting the text in the PSR's voice. Below we provide a mock trigger message with our suggested improvements.

> You have been with your provider of card acceptance services for [x] years. PSR Payment Systems Regulator
>
> - You can shop around for an alternative provider without incurring in any termination costs.
> - You may be able to find a better deal by shopping around alternative providers, **potentially saving you money, giving better service levels and additional products.**
> - The key terms of your current deal are shown below. Keep this close, as it may help you spot a better deal.
> - You can also find an online calculator at www.website.com

Figure 1 - SaltPay's mock trigger message

The timing of the trigger message should vary depending on whether the merchant has a fixed-term or indefinite contract

71. As stated before, the engagement of the merchant with the prompt message will dictate the effectiveness of the message. The timing and periodicity of the message will then play an important role in the success of this remedy. SaltPay's recommendation for the PSR is that it differentiates between merchants which have a fixed term contract from those that don't when deciding the timing of the message.

72. If a merchant is under a fixed term contract with prohibitive termination charges, a reality that disproportionally plagues SMEs as the PSR correctly identified, then the provision of trigger messages in each monthly invoice will not have a significant impact if the merchant still has several months left on his contract. The risk here is that the merchant would grow accustomed to dismissing trigger messages which would undermine the impact of the prompt when it's most needed: closer to the end of the contract when the possibility of switching looms larger.

73. As such, SaltPay recommends that for merchants in fixed-term contracts, trigger messages are only sent closer to the end of the term so as to maximise the impact it has on the merchant. Still, in deciding the precise timing, the PSR should consider that some providers require multiple months' notice to be able to terminate the contract without incurring any additional costs. Our view is that in these cases the timing of the trigger messages should be adjusted accordingly and that the information on the prompt details how many months' notice the merchant needs to give the current provider in case he decides to terminate the contract.

74. If, on the contrary, a merchant is on a rolling basis, SaltPay's view is that a trigger message with every monthly invoice is sensible. In these cases, merchants always retain the ability to terminate and switch. Hence, a trigger message every month that reminds them of that flexibility could encourage more merchants to make use of it.

A standalone message should be considered in case the PSR observes low engagement with monthly invoices

75. We believe it would be beneficial for the PSR to reserve the option of requiring PSPs to send a standalone message in addition to the monthly invoice communication as a back-up in case it observes low engagement with monthly invoices after the initial implementation. Indeed, during the monitoring period, the PSR could keep track of merchant engagement metrics in monthly reviews to ensure that merchants read them regularly. For example, for invoices sent by e-mail, the PSR could monitor click rates and time spent reading the e-mail. If evidence indicates that there is insufficient merchant engagement with monthly invoices, SaltPay suggests introducing eye-catching standalone messages sent by e-mail and post so as to increase engagement.

Scope of the Specific Directions

77. SaltPay welcomes the PSR's provisional decision to utilise Specific Directions to require the implementation of the remedies by the largest Payment Service Providers. As the PSR correctly points out, these providers represent around 95% of the market which means that their implementation of these practices will lead to realizing most of the envisioned benefits. Moreover, it will not require the more onerous approval process involved for a General Direction. Keeping a discrete list of providers will enable the PSR to monitor and assess the impact of the remedies more effectively. This will be particularly important in the first year of the remedies to evaluate their impact and assess the need to intervene further in the market if they have not been sufficiently effective.

78. Furthermore, we submit that it is disproportionate and unnecessary to impose the remedies on all PSPs via a General Direction. While, as explained further below, we do not believe the remedies represent an onerous compliance burden on the largest providers that would be within the scope of the Specific Direction, it could nevertheless represent a material cost for smaller providers and increase the barrier to entry into the card-acquiring market.

79. It is important to note that expanding the scope of the remedy to all providers cannot be confounded with creating a level playing field. The purpose of this market review is to improve competition in the market by fixing problems that were favoring incumbent providers, with the objective of introducing remedies that can level the playing field. Applying the remedies to the major providers will level the playing field.

80. Moreover, SaltPay is confident that, once these remedies are implemented by all the major providers, they will quickly become a market standard and merchants will feel empowered to demand trigger messages, summary boxes, and limits on POS Terminal contracts. Therefore, market forces will produce a knock-on effect that will increase adoption of the remedies as competition in the card-acquiring market intensifies. We thus expect the marginal gain of expanding the scope to all players to be compensated by the knock-on effect.

81. Finally, SaltPay would like to echo the concerns of other stakeholders that the list of Directed PSPs should be updated to represent updated market shares for 2022. This is especially important given the recent market entrance of certain providers. [redacted] Given how the remedies will serve to boost competition in the market, we encourage the PSR to ensure the list is kept updated to account for new players that can quickly gain a substantive market share.

[redacted]

Implementation Period(s) of the Specific Directions

82. SaltPay supports the PSR's proposed implementation period of 3 months as it gives a reasonable amount of time for all remedies to be implemented. We suggest that the PSR should assess the implementation period for each remedy individually. Therefore, any changes to the implementation that the PSR deems necessary, should only apply to the remedy for which it has been reasonably demonstrated that more than 3 months is necessary. As we now suggest however, we do not believe any change is necessary.

83. Firstly, limitations on POS Terminal contracts will be easy to implement by the Directed PSPs. The length of POS Terminal contracts, as well as the termination conditions associated with them, already vary significantly across multiple merchant criteria, as part of the market strategy of each provider, which also evolves over time. Providers will thus be able to utilise existing internal processes to implement the remedy for the applicable segment of merchants. Therefore, we believe these remedies could be implemented comfortably within the 3-month period.

84. Secondly, while summary boxes will require the most effort to implement, they can still be adopted within the proposed period. We expect most (if not all) of the Directed PSPs to have all the information required for Summary Boxes to be readily available on a per merchant and even transactional level, with systems in place for monitoring and quality assurance. This data is already routinely utilised by providers to perform financial and commercial modelling for strategic decision-making. It is likely managed by an in-house data team that is already adept at visualising the data to draw insights from it and facilitate decision-making. The data is also already made available to merchants by most providers via their statements or online merchant portal, albeit often in a piecemeal and untransparent manner. Considering that the PSR is expected to provide guidance over how to categorise this data and that the display of the data will be entirely standardised by the Summary Boxes, we do not expect the implementation to require any significant shift in existing internal processes.

85. Thirdly, we believe trigger messages will also not be onerous to implement within 3 months. Providers already routinely communicate with merchants via their statements, merchant portals, or ad hoc email and post communications about changes to their service or pricing, or in an attempt to up-sell other products. Considering the trigger message will be standardised and sent on behalf of the PSR by the providers, we do not expect the implementation to require any significant shift in existing internal processes.

Final remarks for the PSR's consideration

86. As stated at the beginning of this response, SaltPay welcomes the opportunity to contribute to this consultation on the PSR's provisional decision for remedies in the UK card-acquiring market. SaltPay is broadly supportive of the proposed remedy package and believes that the implementation period and scope are reasonable. We set out below three final recommendations for the PSR to consider before issuing its final decision.

The impact of the proposed remedy package is larger than the sum of its parts

87. SaltPay would like to emphasise the importance of an accurate cost and benefit analysis to ensure the proportionality of the proposed remedies. There is a risk the final CBA may be biased towards implementation costs due to the greater certainty of this category. Despite the greater uncertainty, the impact on social welfare of increased competition between card-acquirers would most certainly exceed the costs of implementation for Directed PSPs which, as discussed in the previous sections, can be expected to have sufficient capabilities in-house to implement transparency measures.

88. SaltPay recommends that the PSR also consider cross-benefits between remedies within the proposed package. We see several synergies between the three main remedies, in particular between summary boxes and trigger messages. Undermining cross-effects in the final cost-benefit analysis could lead to an underestimation of the benefits which could sway conclusions towards a more conservative implementation of the remedies.

Improve merchant awareness and engagement by initiating SME focused campaigns

89. The PSR rightfully acknowledged the technical and contractual barriers that prohibit merchants from switching. However, SaltPay believes there should also be a recognition of the efforts required to address the need for more continuous SME engagement. Our view is that, beyond the proposed remedies, merchants will likely need additional and continuous communication campaigns and SME engagement in order to educate them on the value of switching or renegotiating and the tools at their disposal. This will be instrumental in tackling perceived barriers along with actual barriers to switching and searching for merchants.

90. Notably, there is precedent for the PSR backing high-profile multi-channel marketing and communications campaigns, accompanied by a dedicated consumer-empowering website, particularly in underserved areas of the UK. The Current Account Switching service, established in 2013, is a good example of this. This is especially important to mitigate against merchant inertia. Despite the remedies, merchants may still consider switching to be too much of a hassle or too complicated to achieve, even in cases where this is not the case as highlighted by the Association of Convenience Stores in response to the PSR's interim report. To avoid this, the PSR should be more active in engaging SMEs to ensure they are aware of the ease in which this will be made available to them, the new rights merchants will now have, as well as the potential benefits of switching PSPs.

91. Finally, SaltPay also suggests that the PSR investigates how to encourage SMEs to submit more complaints to the Financial Ombudsman. One solution could be to introduce a dedicated channel for card-acquiring related matters in partnership with the Financial Ombudsman.

SaltPay recommends that the PSR revisit these remedies periodically for necessary changes

92. SaltPay welcomes this remedy package and believes that, with some immediate changes explained throughout this response, it can have in its initial form, a very significant positive impact in the

market. Still, we recommend that the PSR sees this remedy package as a living organism, subject to changes based on observations made during the monitoring period.

93. For starters, in case the PSR doesn't shorten the POS terminal contracts to six months for micro-merchants as we strongly suggest it do, we recommend that this change to the remedy is done in the future if the PSR doesn't find a sufficient impact on switching for micro-merchants, which we envision to be the case.

94. Then, we recommend that the PSR considers including more information on summary boxes on alternatives to card payments if these payment methods continue their rapid growth as expected.

95. Finally, as stated in its respective section, we recommend that the PSR introduces standalone trigger messages if it doesn't achieve sufficient levels of merchant engagement with monthly invoices so as to increase the effectiveness of this remedy. We note that, if indeed merchants don't engage sufficiently with monthly invoices, then it might also be warranted to reconsider whether summary boxes should also be sent through a different communication channel or in the same standalone message format as trigger messages.

Seymour Direct

seymourdirect

[redacted]

[redacted]
www.seymourdirect.co.uk

9th August 2022

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

Seymour Direct has been involved with merchant services and terminal deployments for nearly 25 years and we wish to register our objection in the in the strongest possible terms, to these proposed measures.

The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness. All it will do is increase charges to small independent business owners as all Independent Sales Organisations (ISO) like Seymour Direct, will increase charges to compensate, which will reverse the trend that has taken place over the past 15 years.

The level of competition in the ISO space in the UK to gain new customers is extremely high which has forced costs down overall to the merchants which is what is key and must not be ignored.

Yours faithfully

[redacted]
Director

VAT Registration No. 691 8909 80
Company Registered in England & Wales. Reg. No. 3377152
[redacted]

South Coast Payments

SouthCoast payments
Smooth Sailing Payments

[redacted]

15th July 2022

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

[redacted]

For and on behalf of South Coast Payments

[redacted]

Stripe

stripe

PSR Card Acquiring Market Review - Remedies Provisional Decision - Stripe response

Introduction

Please see Stripe's response to the Card Acquiring Market Review Remedies Provisional Decision below. We note that the Provisional Decision did not set out specific consultation questions, and so provide responses to particular issues we wish to raise. We would be happy to discuss any aspect of our response further.

Responses

Implementation Period

Stripe strongly disagrees that the proposed 3 month implementation period for the summary boxes and trigger messages remedies is reasonable or practical. Any form of those proposed remedies will require extensive technical work across our user base of many thousands UK merchants. It is infeasible to propose that work be completed within a 3 month period. Given that this market review has been in progress for over four years, it is unclear to us why such a short timeframe for the implementation of those remedies would be necessary.

Our view is that there should be a 12 month implementation period and that this would be a reasonable timeframe for firms to implement these remedies.

We are not impacted by the POS contractual remedy so do not make any comment on its appropriate implementation period.

Market coverage

As this is a market-wide review, and the issues the PSR has identified were found to exist across the whole market, it is unclear to us why the proposed remedies would only be directed at 14 named firms. It appears to us that remedies to address market-wide issues should logically be put in place across the market, and not a subset of it. To do otherwise may be seen as unfair to merchants given that a certain number will not benefit from the PSR's proposed remedies. The PSR has not provided detailed market share data or analysis to explain its approach in limiting the remedies to certain firms, which was not mentioned in the previous remedy consultation. We would urge the PSR to reconsider its approach in limiting the remedies to specific firms.

Based on the names listed, our view is that the PSR is likely to be relying on outdated market share data collected during the market review (i.e. during the period 2014-18) in limiting its directions to the named providers. Further, as the PSR has found, there have been new entrants in recent years who have gained considerable market share - this is a dynamic market stripe

and there is therefore a risk, without adequate ongoing supervision and timely review, that firms "fall through the net" of the proposed remedy implementation. If maintaining the named firm approach, the PSR should also therefore set out how firms get added to the list. The PSR should also undertake a review within 12 months of the Remedies coming into force to ensure there are no unintended consequences in terms of impact on competitive dynamics within the market.

There is also a competitive impact issue to consider. Complying with the remedies has a cost on the named firms - resources to implement and maintain the technical solutions, ongoing communications with merchants, contractual arrangements etc. That cost burden falls on the named firms, but not on the other firms in the market. This impacts competitive dynamics and creates an unlevel playing field between comparable firms. Likewise, the merchants of the named firms will receive summary boxes and trigger messages to shop around/switch providers, but other firms' merchants will not. If these remedies encourage switching, they will only encourage switching away from the named firms, and not away from the other firms in the market. We struggle to understand the basis for this given that the PSR has not sought to argue that the problems it has identified in the market are limited to certain firms.

Given the PSR's market data is likely to be outdated, any decision to direct named firms should be based on updated data that reflects the current UK acquiring market. The PSR should also provide detail on the threshold for inclusion of the named firms.

Merchant Turnover Thresholds

In previous submissions, we have made the point that we think the £50m annual turnover threshold for large merchants may be too high, and does not appear to be supported by the data presented by the PSR. Our view is that a lower threshold (of perhaps £10m annual turnover) would be a more appropriate implementation point for remedies. That would also align with the PSR's threshold for the POS terminal remedy: as currently proposed, there appears to be some inconsistency with the thresholds adopted across the various remedies.

The PSR could keep the implementation of the remedies under review and subsequently consider whether it would be appropriate to raise that threshold at a later point. As noted previously, we observe huge differences between merchants in the £0-50m annual card payment range, and we don't think it's right to consider them as a homogenous group for the purposes of remedy implementation.

Remedy - Summary Boxes

Our view is that a prescriptive set of requirements around summary boxes will not be an appropriate approach to this remedy. Most of Stripe's merchants are on a very simple and transparent blended rate. Indeed, in our experience the vast majority of small and medium-sized merchants seek the clarity and certainty of blended rate pricing. In contrast, larger merchants (including within the £50m annual turnover threshold) may want the additional detail and complexity of interchange-plus-plus pricing. However, providing one summary box format to provide the information useful to those two sets of merchants with very different commercial interests and payment sophistication is not practical or desirable. There is a significant risk, in our view, that the complexity of the example formats provided in the PSR's Provisional Decision would overwhelm and confuse many merchants (especially smaller ones), rather than provide additional clarity. We are generally supportive of the summary boxes being as simple as possible.

In our view, it would be most appropriate for the PSR to provide a principles-led approach: e.g. that the summary box should provide information that it can be reasonably expected the merchant would want to receive, based on the pricing structure and contractual arrangements they have expressed a preference for and agreed with the acquirer. This would have the benefit of encouraging rather than stifling innovation in terms of transparency and information sharing with merchants. We support the inclusion of non-price information as suggested by the PSR given that non-price factors are an important factor of competition in the market.

That equally applies to the proposed online quotation tool - if that is not a simple and easily understandable interface for merchants, we think it is unlikely to be effective.

Remedy - Trigger Messaging

The key points we wish to make regarding trigger messages are format and timing. In terms of format: the format and delivery mechanism must be consistent with merchants' needs and expectations, which acquirers will know best. For example, Stripe rarely (if ever) sends post or texts, and our experience is that merchants prefer dashboard notifications to email (as they log-in to their Stripe dashboard frequently to manage their Stripe account). Therefore, it's vital that a choice of delivery mechanism is provided to acquirers - and specifically from our perspective, that dashboard notifications are one of the available delivery options. However, a requirement to provide it on the "landing page" of the dashboard is onerous. That is akin to a merchant seeing a banner on their email inbox, rather than an underlying email.

We additionally have concerns that the merchant may view this as a message from Stripe encouraging them to switch away (i.e. because they aren't a valuable enough customer, or their risk profile isn't a fit) and we think there will likely be low awareness of the PSR remedies among our merchant base. The trigger messaging therefore needs to be proportionate to the intended aim and mindful of the reality that many merchants will not be familiar with the PSR or this market review.

In terms of frequency: as the PSR is aware, the vast majority of Stripe's merchants are on non-fixed term rolling contracts, and can start and stop using Stripe services as they choose, without any contractual costs or fees. The PSR proposes that for these merchants we should provide monthly trigger messages. Our view is that this is excessive and we think our merchants would consider that a significant annoyance. It also seems to "punish" contractual flexibility given that we would have to provide more frequent prompts to shop around with other providers because of the contractual flexibility we provide to merchants. This seems at odds with the PSR's stated aim to encourage flexibility for merchants.

We believe annual trigger messages would be appropriate in this scenario. Further, we believe that the merchant should have the ability to "pause" trigger messages. If they do not have that ability, some merchants may view the ongoing messages as unwanted spam, which may lead to complaints regarding unnecessary and unsolicited user communications. That "pause" could still have a minimum requirement e.g. that a merchant receives a trigger message at least once a year (in the event that the mandated frequency is more than once a year).

In terms of content of the trigger messages, we would echo the point regarding summary boxes that prescriptive content requirements are unlikely to be an optimal approach: the tone and detail of messages should vary according to the nature of the recipient merchant, and acquirers are best placed to tailor the messaging accordingly. The PSR could set out principles reflecting what the messages should cover, and then leave it to acquirers to tailor the content.

Stripe

The Payments Co

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

A 36 month maximum term would perhaps work better and allow us to continue providing our merchants with the latest hardware solutions, which can be very expensive.

I would also like to add that we agree with more transparency within this industry and one possible measure that could be implemented to protect merchants is a level of governance on the number of self-employed agents that are allowed to operate in this industry without any background checks.

Yours faithfully

[redacted]

For & on behalf of Thepaymentsco.com Limited

thepaymentsco.com Limited
[redacted]
Registered No. 10614203

UK Finance

PSR Card-Acquiring Market Review (CAMR) Remedies *Provisional Decision Consultation*

UK Finance Response

Date: 09/08/2022

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

Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

Our response to the Payment Systems Regulator's (PSR) consultation on its Provisional Decision in respect of CAMR remedies is made following detailed engagement with our Payment Acceptance Policy Group, which includes major UK banks, long established international payment services providers and newer entrants to the market.

INTRODUCTION

We welcome the opportunity to respond to this consultation, as part of our ongoing engagement with the PSR on this topic. Payments are a fundamental part of the UK economy, and ensuring businesses can accept payments from their customers, with ease and adequate protection from default risk, is important.

We are grateful that the PSR has been responsive to the card payments industry in shaping its remedies, both in:

- moving away from the remedy of Point-of-Sale interoperability which was overly prescriptive and technically unfeasible; and

- the mandating of Digital Comparison Tools, which are primarily suited to comparing linear customer products, rather than complex business needs.

Below we set out our responses to the revised remedies in the Provisional Decision – summary boxes; trigger messages; and set contractual arrangements with Independent Sales Organisations (ISO). Given the relatively short consultation period (six weeks), we have not been able to provide detailed scrutiny in respect of the Cost Benefit Analysis or the Draft Direction Orders as set out in the accompanying annexes. We regret that the PSR did not allow sufficient time for this.

However, we look forward to working closely with the PSR as we move into the careful planning and implementation of the final remedies. Ultimately, the presentation of any future *Final Remedies Notice* should reflect the industry's contribution in producing a clear, realistic, and robust set of technical specifications that the industry can help deliver.

RESPONSES

Given the consultation has no prescribed set of questions we have aligned our responses to the points raised at Paragraph 3.1 of the Provisional Decision Consultation Paper.

COMMENTS ON APPROACH

Implementation Period

- We disagree that a three-month implementation period for the remedies (to commence from publication of the Final Remedies Notice) could have been considered reasonable. At the recent PSR Roundtable Discussion (20 July), participants from across the card payments value chain raised material concerns and outlined unnecessary pressures that this timeframe would place on the ecosystem. When the industry and the PSR have been working to identify the potential harms in the market over several years, it is not proportionate to seek to implement remedies over such a short period.

- The three key constraints that the PSR should consider include:

    - **Effective business planning**: participants require sufficient notice to plan changes into their budget and business planning cycles. If the Final Notice is published by November 2022, firms would expect to be able to plan in the changes for the next business year which normally runs January - December.

    - **Technical changes and customer testing**: participants will already have technical changes in train for 2023. Implementing the remedies will need to be planned into firms' schedules and will divert finite engineering and other resource from pro-consumer initiatives such as product development. In addition, while it is welcome that the PSR has conducted testing with merchants already, firms may want to conduct their own customer testing (e.g. on differing forms around the most appropriate and effective communication method).

    - **Regulatory changes: firms are always balancing across a number of regulatory initiatives** and other specific requests. In particular, 2023 will see the implementation of the FCA's Consumer Duty regime, which marks a significant shift in the regulation of firms' approach towards customers. We anticipate that this will also impact acquirers' relationship with small merchants.

- Acquirers will need to consider the impact of the contractual changes, which will require negotiation with different providers on timing. According to the draft Directions, each acquiring firm will also need to formulate an effective 'oversight model' across the value chain that is capable of requiring other participants to support changes.

- More specifically, further thought is still needed at properly deciphering what compliance obligations the "*acquirer-of-record"* should be placed under, when servicing a number of entities operating across an ever-complex value chain; in particular Payment Facilitators whose arrangements under the draft Directions remain unclear.

- We believe all of the above considerations require a minimum of twelve months from the Final Remedies Notice publication. We would therefore not expect the PSR to require implementation until January 2024 at the very earliest.

Scope of directions

UK Finance aims to represent the full spectrum of its member views. We aim to achieve meaningful consensus where possible but will also note divergent views if necessary.

➢ Market coverage

- There is a recognition amongst our members in limiting the scope to participation in Visa and Mastercard payment systems is appropriate, but disagreement with the PSR's suggested approach at issuing a specific direction to only 14 participants (12 of whom are UK Finance members).

- Our concern is that issuing a specific direction to only 14 participants creates a disconnect between the PSR's findings, which point toward a perceived set of general flaws in the market in respect of open-ended four party schemes, and its remedies, which focus exclusively on a specific and partial subset of providers operating within these payment systems.

- That seems counter-intuitive and raises an understandable fear that this will create an *'unlevel playing field'* for the provision of Visa and Mastercard card acquiring services, excluding a significant tranche of merchants and a '*long tail'* of acquirers falling outside of the protections as are being offered.

- Additionally, the PSR should also properly reflect upon what the likely second-order effects and potential unintended consequences might be in applying a 'tiered' approach with respect to ISOs. For example, where independent sales organisations (ISOs) have become acquirers who would not be captured under the current proposals; or, are pushed towards 'non-UK based acquirers' who may not comply with a higher standard. This has the very real potential to distort the market to the detriment of consumers and merchants alike

- Which in doing so undermines the outcomes that the PSR wish to see delivered in practice for Visa and Mastercard card acquiring services (i.e. *greater transparency, greater engagement,, and ability to change providers easily*) creating an unnecessary level of ambiguity; as to how providers will fall in/out of scope of the remedies and as the market evolves. Reflective of its dynamism, and as characterized, by the existence of multiple markets for different services that operate within it.

- Members recognise that an all encompassing general direction should not be applicable to closed loop three party schemes and a clear exemption should remain with respect to participation in payment systems that possess those specific characteristics, and attributes, that make them operationally distinct to be categorized in this manner.

- More generally, it would be helpful for the PSR to be clearer as to its thinking as to why it deems a *two-tier approach* to be necessary at this late stage – further clarifications would include:
    - If the PSR has identified general harms in the market in relation to card acquiring for Visa and Mastercard, why does it see a specific Direction being more appropriate than a general Direction for the provision of these services?
    - Is the PSR satisfied that using the 2014-18 CAMR data is a sufficient basis for measuring market share of these providers, given the rapid changes to the acceptance market in the intervening four to eight years?
    - How will the PSR continue to monitor the market, and will it seek to extend the Directions if a new participant reaches a certain threshold? When will the PSR gather relevant data, given the data currently being utilised is already 4-8 years old?

- Merchant turnover breakpoints

  - Turnover breakpoint remains a point of contention around the upper arbitrary limits as being referenced (i.e. £50 million threshold). The data to support any purported view by the PSR in substantiating this range has been consistently highlighted by our members to be problematic, with questions in the robustness of the underlying data set.

  - The complexity of payment acceptance needs and commercial sophistication seems to be set against two specific and arbitrary thresholds (i.e. £10 million and £50 million). This continues to present difficulties for members when having to incorporate what are arbitrarily enforced breakpoints as part of their own systems that may be segregated into different portions/ segmentations – based on the merchant types in question – and across different pricing models.

  - Such an approach seems inconsistent particularly when attributing this at the higher end of that upper threshold limit. This seems disproportionate nor appropriate to the acceptance needs, and commercial sophistication of those merchant offerings operating at that upper end. Any potential remedies should apply at a much lower threshold.

  - Our members would respectfully ask the PSR to consider whether a £10 million limit (to be kept under review) would be a more suitable starting point that could be applied; and, offers a more sensible breakpoint based on how most members have their own portfolios designed around segmentation into SME, corporate and/or large corporate entities.

- PSP direction over ISOs and Payment Facilitators (PFs)

  - There exist potential inconsistencies as to who the remedies actually apply in the context of trigger messages/contractual termination. The entities involved for each seem to be different. We would argue that the guiding principle of *''same activity, same risk, same regulation'* should be applied here with a general direction being made applicable to all parties and participants across the value chain for the provision of Visa and Mastercard card-acquiring services.

  - In addition, the PSR needs to be clear on who has ultimate responsibility for monitoring post-implementation and what reporting obligations (and frequency) will be put in place. In particular, what is the expectation on oversight models that those in scope of the directions should have over third parties – both ISOs and PFs?

  - Potential scenarios where this could prove problematic include where an acquirer has a contract with their ISO who in turn offers a broad range of services. For example, where an ISO has obtained terminals from a third-party provider it seems that any contractual enforcement to deliver on the 18-month remedy would fall on the acquirer – yet they would not be involved in the chain – raising a valid question as to whether the onus should rest on the acquirer in having that responsibility.

COMMENTS ON SPECIFIC REMEDIES

Summary boxes

As a trade body it is not within UK Finance's remit of expertise to offer a definitive view as to any preferred format.

We welcome the PSR's assurances that any purported design will be thoroughly tested, and to have those findings shared, so offering our members the opportunity to scrutinize and challenge any wrongful assumptions that may have been made.

Clearly the effectiveness around the remedy being sought is in agreeing to a format that can be made capable of providing a bespoke set of price comparisons, but help offer a genuine like-for-like comparison.

This is something that we will leave to our members to further comment on as part of their own individual responses, in how best to ensure both price and non-price information align with their own commercial models and service offerings.

More generally, we would respectfully refer the PSR to our response to the Proposed Remedies Consultation (dated 6 April 2022) which has pertinence but should be qualified in the context of when those arguments were made (i.e. pre-dating the formulation of the current remedies).

There are versions of the summary box that may prove workable, and upon which industry could implement, but these will not be without their complexities; and may not have the intended policy outcome of increasing merchant switching. The PSR accepts that evidence on effectiveness of summary boxes is mixed[1]. In the original CAMR report[2] the PSR notes that a large percentage (45%) of small-to-medium merchants never search for providers.

Any summary box approach needs to take into account the following considerations:

- *The ability to agree price points and terminology by which like-for-like comparisons can be made. Acquiring is a complex business and pricing models are largely driven and reflective of market conditions, with many non-pricing elements and services being offered that go far beyond 'acquiring' (e.g. Dynamic Currency Conversion (DCC), Fraud, Gateway Services).*
- *Given the time constraints of many business owners, it is likely that level of engagement that businesses will give to any form of comparison tool for acquiring services will be predicated on the simplicity of that tool. In assessing its options, the PSR should consider this as a critical guiding principle.*
- *Balancing the need for simplicity with the complexities that acquirers are statutorily required to adhere to (e.g. Article 9 – Interchange Fee Regulation[3]).[4]*
- *Ensuring accuracy of the information to allow merchants to make informed decisions and avoid any uncertainty.*

Overall, we believe there are some important practical questions on price and non-price points related to this remedy's definitions and design elements, which reiterates the importance of focusing on outcomes and testing and trialling different solutions. We also encourage the PSR to avoid prescriptive regulatory requirements and instead let the market compete for the needs of their customers and the best way to present pricing information in an adequate form to different merchants.

Finally, as we have said before the unintended consequences to any approach should be considered carefully, particularly for SMEs due to the time constraints they would have to increase engagement with their acquirers on a more regular basis than they currently do.

---

[1] The PSR's data indicates that upwards of 45% of merchant suggest nothing would make them more confident about switching provides measured against 23% who suggest access to more comparable pricing information and less than 10% suggesting more accessible information.

[2] https://www.psr.org.uk/media/vkbmjgny/psr-card-acquiring-market-review-merchant-survey-results-iff.pdf

[3] Regulation (EU) 2015/751 of the European Parliament and of the Council https://www.legislation.gov.uk/eur/2015/751/body

[4] Raising an inherent tension between (a) simple pricing packages as an aim, thereby making it easier for merchants to compare prices and (b) the transparency requirements of the Interchange Fee Regulation, which are very prescriptive and are solely founded on a transaction-based pricing model.

Trigger messages

- As we recognised in our response to the Interim Remedies consultation, the concept of a trigger message as an 'annual prompt' for the merchant to look around could be a positive development that may encourage merchants to think about their current contractual arrangements by reminding the customer that they may not be getting the best possible deal.

- They have also been delivered to good effect in other business-to-business markets when policies are renewed (e.g. insurance).

- We would like to reiterate the need to avoid '*race-to-the-bottom'* pricing. Providers compete not just on price but also on the quality/functionality of the service offering. The trigger message should therefore reflect the integrity and relationship between an existing supplier and supporting merchant.

- At the PSR roundtable, it was noted that the most useful first-step for a small merchant would be to engage directly with their existing acquirer on whether their service package can be improved, for example to better suit a changing business model from the customer's end. Trigger messages should avoid simply stating that the merchant could get a better deal elsewhere.

- The format and delivery mechanism of the trigger messages need to be properly tested and evaluated. For example, the assumption is that electronic messages (email, text) will be more accessible. Dashboard notifications will be most appropriate for online merchants who engage via dashboard. The timing of messages is also important and should be considerations to be factored in; and further evidenced, not least as to whether the frequency of receiving such messages has the overall effect of leading to merchant disengagement.

Point of Sale (POS) contracts

- As stated in our response to the Interim Remedies consultation, and reiterated elsewhere in this response, many of our members consider that a contractual remedy is most appropriate for addressing a potential contractual harm, and we support the change in direction away from POS interoperability.

- At the PSR roundtable on 20 July those ISOs present felt enforcing a maximum duration of 18 months on POS terminal lease and rental contracts with a maximum monthly renewal would reduce the choice being made available to merchants / ISOs.

- However, other of our members would strongly disagree with that contention perhaps reflective of the commercial differences that exist between business models operating in the market.

- The PSR should be encouraged to provide further detail on the benefits that it believes maximum POS terminal lease and rental contracts can create for innovation and competition which we anticipate would be reflected and further refined in the direction order as drafted so as to prevent circumvention and ensure effective application to support the PSR's proposal in this instance.

- Finally, the PSR should be under no illusion about the practical implications and associated costs that the monitoring of compliance will place on providers.

- Those considerations should include;

- What level of monitoring function this will actually entail – the onus should be on the PSR to provide that level of detail.

- What specific metrics are likely to be measured; including data, with consideration as to the frequency and format of such requests being placed on the industry.

- For the PSR to be cognisant of comparable reporting requirements that providers have experience of when dealing with other regulators (e.g. *CMA / FCA*) which in reality takes up considerable internal resource, time and effort in achieving full compliance.

- For the PSR to be more specific in how it intends to monitor its compliance obligations – particularly when applied to certain segments of the market that do not fall under the PSR's jurisdiction or regulatory scope.

Concluding remarks

At a time of economic uncertainty, and with a wide-ranging set of regulatory and legislative initiatives being introduced, there needs to be a heightened focus in ensuring any changes will be effective in addressing the underlying concerns that have been identified during the review.

We want to work closely with the PSR in the next phase – formulating the Final Remedies Notice – to ensure that the remedies introduced will improve consumer and merchant outcomes.

In particular, we want to work with the PSR to progress trials that can contribute to understanding of merchant circumstances and so that its approach is consistent with the Competition and Markets Authority's expectation that regulators should test and trial potential remedies before implementation where possible.

We would also expect the PSR to set out how it intends to monitor and evaluate the remedies prior to its Final Remedies Notice, and we will work with the PSR in the creation of an effective evaluation framework.

Part of that evaluation needs to factor in what are very clear concerns which our members have raised as to the purported timescales. Not least how this then manifests in terms of the operational impacts, change management processes, technical build specifications and likely testing phase that will be needed.

This seems at odds to how this was deemed a 'low impact of concern' for firms, when referenced (at page 50) in the recent publication of the FCA's Regulatory Initiatives Grid (May 2022)[5]. The purview of that document is to capture, as a forward look, any significant regulatory initiatives likely to be occurring over a 24-month period which members seem to be clear this would constitute.

[5] https://www.fca.org.uk/publication/corporate/regulatory-intitiatives-grid-may-2022.pdf

UTP

Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

20 July 2022

Dear Sir/Madam

Card-acquiring market remedies provisional decision

In response to the provisional decision issued by the PSR in June 2022, UTP Group Limited ("UTP") is pleased to provide the below comments on the remedies proposed. The comments are focused on practical challenges and issues relating to the implementation of the remedies rather than generic feedback regarding the high-level concepts proposed by the PSR.

Scope of remedies and specific directions

The provisional decisions proposed by the PSR are material in nature and will have a profound impact on many organisations operating in the acquiring market. It is difficult to see how this can be equitable unless the remedies proposed are applied equally and to all market participants. A direction applying to 95% of the market is unlikely to achieve this aim and UTP is of the view that the directions should apply to 100% of the market from day 1. Several ISOs / service providers use acquiring services from organisations not currently on the list of 14. Excluding the acquirers covering the remaining 5% has the potential to cause market distortion, albeit potentially in short-term.

Implementation period

It is UTP's view that a three-month period is insufficient to implement the provisional remedies. The mechanism for implementation of the remedies is, in the main, via the actions of the PSPs (e.g. providing summary boxes on merchant statements). For this to be practical a data exchange will need to be designed, built and implemented between market participants and the various PSPs to cover data not currently in the hands of the PSP. This is in addition to the potential requirement for the PSPs to aggregate the relevant data from their own sources prior to presentation on merchant statements. Such exercises are clearly eminently achievable however the requirement to deliver such a material un-planned, un-budgeted project within the required timescales is likely to be a challenge. The initial questionnaires from the PSR considered timeframes for implementation of the

[redacted]

remedies using available data. Requiring PSPs to source external data from third party organisations was not, to our knowledge, fully assessed.

Remedies relating to POS terminals

The remedies proposed in relation to POS terminal contracts are material and will have far reaching consequences for many industry participants. It is therefore important to ensure that there is clarity regarding exactly what constitutes a "POS terminal" and steps are put in place to avoid market distortion arising from differing interpretations regarding which solutions fall within the scope of the proposed remedies. By way of example, many POS terminals are integrated with or connected to a range of EPOS systems. Such EPOS systems vary significantly in terms of their cost and complexity, and many are in use by merchants which fall within the size range anticipated (i.e. card turnover of up to £10m). Forcing EPOS suppliers to finance equipment over an 18-month term is likely to significantly increase the monthly charge paid by merchants. Conversely, if such solutions are not included within the scope of the remedy, will the POS devices included as part of the solution be subject to an 18-month maximum duration? It is unclear from the provisional decision document how such solutions will be treated and the intentions of the PSR in this regard.

General comments

Whilst UTP fully respects the efforts of the PSR to ensure the card-acquiring market is working well for merchants, the above non-exhaustive list highlights some of the initial concerns associated with the practical implementation of the remedies. Given time, solutions to all such concerns can be identified however it is UTP's view that a 3-month implementation window may be insufficient to fully evaluate and resolve some of the practical challenges associated with the remedies proposed.

Please don't hesitate to contact us if you have any further queries or would like to discuss any of the above matters in detail.

Yours faithfully,

[redacted]

Chief Executive
UTP Group Limited

Visa

10th August 2022

Card-acquiring Remedies Consultation
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

Sent by email to: cards@psr.org.uk

CP22/3 Card-acquiring market remedies - Provisional Decision June 2022[1]

We welcome the opportunity to comment on the PSR's proposed remedies as part of the card-acquiring market review.

As we set out below, and as communicated many times to the PSR during the market review, the PSR should take an evidence-based approach to develop its remedies. We remain concerned that the PSR's Provisional Decision does not appear to have done this. In particular, we recommend that the PSR carefully tests and trials its remedy options to understand, as far as it is possible their accurate costs and benefits. This work should then be used to iterate the remedy proposals until a tool is achieved that meets the PSR's objectives and delivers the intended benefits to the merchant community. Such assessment should be completed before committing the remedies to a nationwide rollout.

In the remainder of this letter, Visa's comments are focused on the summary box remedy. Accordingly, we do not intend to provide detailed comments on the broader range of remedies or the decisions nor on the measures now not being pursued.

In the Provisional Decision, the PSR state that the summary box remedy...

...is intended to achieve greater transparency and comprehensibility for merchants by helping them to understand the pricing elements of any service they use and compare prices more easily[2].

The PSR's ultimate objectives with this remedy are to increase both merchant engagement with the market for acquiring services and their confidence in switching their acquirer.

[1] PSR (2022) "CP22/3 Card-acquiring market remedies, Provisional decision"

Having carefully reviewed the PSR's proposed options, we do not think any would achieve these intended objectives. We believe the summary box options require further testing and trialling with the merchant community to achieve desire benefits / results.

We make some further observations below.

First and most critically, we firmly believe that to be an effective tool for the merchant community, the summary boxes need to be as simple and actionable as possible to enable merchants to make more informed decisions. Summary boxes should include relevant information for merchants, such as, and primarily, the overall the cost of acceptance. We question the ability of even well-informed merchants to understand the relevance of the different components of the merchant service charge and other peripheral information as currently proposed.

Second, the proposed presentation of multiple price points is likely to give a misleading impression of the different components of the cost of acceptance. This not only risks confusing merchants' understanding of the pricing elements of the payment services they use, including Visa's fees, but also risks undermining the effectiveness of the summary box altogether.

Third, the PSR has limited experience in designing remedies for the merchant community. This is a difficult remedy to design and therefore, it is critical that the remedy is designed and tested iteratively with representatives and feedback from the merchant community. Progressing testing and trials will contribute significantly to the PSR's understanding of merchant circumstances and their preferences for a remedy of this nature.

Finally, we note the PSR is considering monitoring post-implementation compliance with the summary boxes. However, we believe the PSR should consult with the industry on how it intends to monitor and evaluate this and other remedies before its final notice.

If you have any questions about this response, please contact [redacted] [redacted] at [redacted] or on [redacted]

Yours sincerely,

[redacted]

Visa Europe Limited Registered in England No. 5139966
Visa Europe Services LLC Registered in England No. BR007632

Wireless Terminal Solutions

Monday 11th July 2022

To: Payment Services Regulator

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

Yours faithfully,

[redacted]

Director
For & on behalf of Wireless Terminal Solutions

Worldpay

PSR CARD-ACQUIRING MARKET REVIEW REMEDIES PROVISIONAL DECISION JUNE 2022

Worldpay response to the PSR Provisional Decision

10 August 2022

Confidential version

Contents

EXECUTIVE SUMMARY

1.1 Worldpay welcomes the opportunity to respond to the PSR's provisional decision on remedies (the "**Provisional Decision**") and looks forward to continued engagement with the PSR in subsequent stages of consultation with industry.

1.2 In light of the short consultation deadline and the additional market testing and preparation of technical guidance that the PSR is undertaking, we have focused our submissions on Worldpay's overall views in relation to the remedies proposed in the Provisional Decision. We have not provided detailed comments in response to each of the draft specific directions or the draft Cost Benefit Analysis on the understanding that these will need to be updated in light of the responses to this consultation. In particular, there will need to be further market engagement on likely costs and benefits once the detail of any remedy proposals has been established – it is simply not possible to engage meaningfully with the cost benefit of many of the remedy proposals given the lack of specificity with which they are described. In this regard, Worldpay would welcome the opportunity to continue its engagement with the PSR in relation to the preparation and implementation of market remedies.

1.3 By way of general comment:

(a) firstly, as set out in previous submissions (which are not repeated here in detail), Worldpay maintains its view that there is an insufficient evidential or legal basis for imposing interventionist remedies that are contemplated by the Provisional Decision. This point applies with particular force in respect of merchants larger than the "micro" category;

(b) secondly, with regard to the above, the scope of the remedies set out in the Provisional Decision needs to be limited to the smallest merchants, for example, those with annual card turnover of less than £500,000. Conversely, it is inappropriate to extend a package of remedies, essentially designed and applied in other cases in the consumer context, to merchants of a scale who clearly act as businesses. At the extreme end, the PSR currently contemplates a package of consumer remedies for merchants with annual card turnovers of up to £50 million. Such remedies are plainly inappropriate and disproportionate due to the bespoke nature and complexity of the payment services that merchants of any scale are currently well able to identify and procure for themselves. If the PSR persists with these remedies, careful market-testing and cost analysis will be essential to identify the scale of the increased transaction costs the remedies will lead to and will ultimately be passed on to consumers with no corresponding benefit;

(c) thirdly, an implementation period of three months as currently proposed by the PSR is obviously unfeasible. Worldpay considers that at least 18 months from publication of the Final Remedies Notice will be required in order for any relevant changes to be implemented by industry; and

(d) fourthly, a package of remedies that is essentially designed to be market-wide needs to be imposed by way of a general direction. It is discriminatory and unfair to limit the remedies set out in the Provisional Decision to 14 providers of card-acquiring services, with no corresponding need to do so. Such an approach risks distorting competition, particularly in circumstances where there is and will be new entry into the market and given the rapid change in the industry. It also imposes an unfair burden upon those operators and creates uncertainty going forward in respect of any enforcement / liability for breaches in circumstances where they are essentially committed by third parties not subject to a specific direction.

1.4 Subject to the above, Worldpay also has a number of specific comments.

1.5 In relation to the 'bespoke summary box' remedy:

(a) a summary box that is targeted towards the category of smallest merchants, who generally receive a standardised product for card-acquiring services based around a "headline rate", may be capable of effective implementation and a meaningful basis for comparison, in respect of the simplified payment products they often procure;

(b) however, the method of delivery should be at the discretion of the directed PSP, as this will enable them to provide merchants with the relevant information via the most appropriate channel, for example in order to adhere to any preferred methods of communication that have been agreed with a particular merchant; and

(c) in terms of the format and content, subject to the results of the PSR's market-testing, Worldpay currently considers that "Option 1" as set out in the Provisional Decision may be more appropriate. In addition, Worldpay would welcome confirmation from the PSR that directed PSPs may provide additional information they may consider relevant alongside the prescribed summary box, i.e. to ensure that all relevant factors in an acquirer's offering can be taken into account.

1.6 In relation to the new 'online quotation tool' remedy:

(a) Worldpay does not consider that this remedy is appropriate or proportionate. In particular, the implementation of this remedy would be complex and involve a significant cost;

(b) it would also bring a fundamental change to the market that is not justified or likely to have benefits. In particular, it is not clear how this remedy would address the issue of comparability, given the difficulty of providing SMEs of any scale with reliable pricing information due to the bespoke nature of the services they choose to use;

(c) if the PSR nevertheless concludes that the implementation of this remedy is necessary, this should be limited to the smallest merchants (as explained above); and

(d) this remedy was not consulted upon in the Initial Remedies Consultation and the current cost estimate is grossly underestimated. A more accurate cost-benefit analysis would need to be undertaken and consulted upon before proceeding with any version of this remedy.

1.7 In terms of the 'trigger messaging' remedy:

(a) the same points as set out in relation to the proposed summary box remedy would also apply to the trigger messaging remedy – i.e. this should be limited to the smallest merchants, and the method of delivery should be at the discretion of the acquirer; and

(b) an annual trigger message would be more proportionate and effective than a monthly message. Annual communications would be more prominent and achieve a more reasonable balance between ensuring that merchants are regularly prompted to search and switch, but are not inundated with monthly communications that contain substantively the same information.

1.8 In terms of the POS terminals-related remedy, Worldpay welcomes the PSR's decision not to pursue a "technical remedy". However, there is a risk that the proposed 'contractual' remedy will lead to a reduction in merchant choice and / or increasing upfront costs by removing the choice for merchants to actively "opt-in" to ancillary payment services sold alongside or in conjunction with terminal solutions. This is potentially particularly relevant to "SmartPOS" terminals and integrated payments solutions which generally require a contractual term in excess of 18 months to be offered on terms attractive to the buyer and provider alike. It is therefore important that the definition of POS terminals should be delineated carefully to reflect the scope of the remedy as identified by the PSR, namely applying to traditional standalone terminals rather than the innovative ancillary products sold alongside them.

GENERAL COMMENTS

Insufficient evidential or legal basis for interventionist remedies

2.1 As set out in our previous submissions, Worldpay does not consider there to be an evidential or legal basis for imposing any of the interventionist remedies that are contemplated by the Provisional Decision. In particular, the findings set out in the PSR's Final Report provide insufficient evidence to support a finding that merchants experience difficulties when searching and switching. There is no cogent evidential basis to make such findings and impose remedies in relation to SME merchants, particularly within the higher turnover categories.[1]

2.2 We have not repeated these arguments for the purpose of this submission. However, we note that Worldpay's representations continue to remain unaddressed by the Provisional Decision and it follows that the remedies being proposed are likely to result in a disproportionate cost being incurred by card acquirers relative to any benefits (if any) that may be achieved from those remedies. In particular, it is noted that the Provisional Decision, including the draft Cost Benefit Analysis, do not provide any reliable evidential basis to suggest that the proposed remedies would lead to any increase in switching.

2.3 Worldpay's general comments in relation to the Provisional Decision and in respect of each individual remedy is without prejudice to its fundamental concerns in relation to the evidential and legal basis for imposing remedies.

Any market interventions should be limited to the smallest merchants

2.4 To the extent that the PSR nevertheless intends to impose remedies in this market, we consider the current scope of the proposed remedies as set out in the Provisional Decision to be too wide. Whilst certain remedies may in theory be helpful for the smallest merchants, such as microbusinesses and sole traders, who are analogous to consumers in some respects, the imposition of remedies to merchants comprising self-standing business entities, including with an annual card turnover threshold of up to £50 million is arbitrary, and neither appropriate nor proportionate.

2.5 In particular, the remedies set out in the Provisional Decision fail to recognise that acquirers, payments facilitators and ISOs are operating within a business-to-business environment when contracting and negotiating prices and service offerings with merchants. In contrast, the majority of cases cited in the Provisional Decision in order to support the PSR's proposed remedies concern consumer-facing markets. In particular, we note that:

(a) the application of consumer-style remedies in business-to-business markets represents a fundamental departure from the FCA's established approach that regulators must balance between the protection of microbusinesses and adherence to the "*long-standing principle of freedom of contract between business*";[2] and

(b) the FCA has also recognised that regulatory intervention in business-to-business markets can have harmful and unintended consequences. For example, the FCA previously recognised that:

---

[1] Worldpay response to Initial Remedies Consultation, paragraphs 2.1-2.8. See also Chapter 4 of Worldpay's response to the Interim Report.

[2] FCA, 'Our approach to SMEs as users of financial services' (November 2015), paragraphs 2.6 and 4.13.

"*by increasing the minimum cost to firms of serving SME customers that individually generate relatively little revenue, interventions might reduce SMEs' access to services, such as lending, or the level and quality of service available to them, or even incentivise firms to provide SMEs with unsuitable products. Regulatory uncertainty can also dampen innovation and discourage entry into the market, limiting the level of competition and choice for SMEs*".[3]

2.6 The Provisional Decision acknowledges that card-acquiring is "*not a consumer market*", but claims that:

"[m]*any of the merchants in the group that will be protected by the remedies we are putting in place (those with annual turnover below of £50 million) are small businesses that share characteristics with residential consumers of services – for example, they do not have access to dedicated procurement expertise to help compare complex offerings*".

2.7 However, it is obviously incorrect to compare businesses with annual card turnovers in the millions, including those approaching £50 million, with "*residential consumers*" or to suggest that such merchants cannot access dedicated procurement expertise to help compare card-acquiring services, whether through their in-house finance team or the plethora of consultants and brokers that are active in the payments sector.

2.8 We recognise that the very smallest merchants are more likely to behave similarly to consumers in some circumstances. For example:

(a) sole traders that are already subject to consumer protection measures under the Consumer Credit Act 1974;

(b) "*micro-enterprises*" with annual turnover and/or balance sheet of less than €2 million receive additional protections under the Payment Services Regulations 2017 (the "**PSRs**"); and

(c) the FCA has recently confirmed that the introduction of a new "Consumer Duty" shall apply to micro-enterprises that are protected under the PSRs.[4]

2.9 Worldpay's submissions have consistently proposed that any remedies should only be targeted at the smallest categories of merchants,[5] which would be consistent with the FCA's general regulatory approach of ensuring that "*the smallest businesses, particularly micro enterprises, are more likely to have access to regulatory safeguards across products than larger SMEs or large corporates*".[6]

2.10 In light of this, in order to ensure that market interventions are applied proportionately and as explained in further detail in response to the specific proposed remedies below, Worldpay considers that:

(a) the starting point when determining the scope of any remedies imposed in the context of the Provisional Decision should be limited to the smallest merchants, where they can

3 Ibid.

4 FCA, 'A new Consumer Duty – Feedback to CP21/36 and final rules' (27 July 2022).

5 For example, a sub-set of those merchants with less than £380,000 annual card turnover who, based on the PSR's analysis, make up around 90% of the merchant population.

6 FCA, 'Our approach to SMEs as users of financial services' (November 2015), paragraphs 4.12.

be demonstrated through market testing to have a pro-competitive impact. For example, merchants with an annual card turnover of less than £500,000;

(b) the scope of any remedies should only potentially be increased to merchants with annual card turnover higher than this figure if market testing demonstrates that expanding the scope of the remedy is strictly necessary to address the PSR's concerns. For example, a figure of less than £10 million would at least address the segment of merchants covered by the previous merchant survey; would be in line with the level the PSR is proposing in respect of the POS-terminal remedy; and would align with a segmentation already largely recognised by the industry.

Issuing a general direction would be more appropriate for market-wide remedies

2.11 The Provisional Decision suggests that a general direction is unnecessary, as the 14 providers of card-acquiring services to whom the draft specific directions will apply account for around 95% of retailer transactions in the UK and that this would be "*sufficient*" to ensure "*the competitive benefits of the proposed remedies will be realised*".[7]

2.12 Worldpay understands that the PSR intends to keep the PSPs directed under review and will "*consider extending the mandate through a general direction*"[8] if necessary. However, given the rapid pace of change that the payments sector continues to observe, Worldpay submits that it would be more appropriate for any remedies implemented by the PSR to be applied via a general direction. In particular, we note that:

(a) the Final Report confirmed that the overall shares of supply of the five largest providers of card-acquiring services steadily declined between 2014 and 2018 in value and volume, with other acquirers and payment facilitators increasing their market shares respectively. It cannot be assumed that the 14 providers currently representing 95% of UK card-acquiring services will continue to do so in the future;

(b) the Final Report found that there is no evidence of significant barriers to entry and expansion, which has been confirmed by direct evidence of actual entry and expansion by competitors in recent years.[9] This includes the high likelihood of imminent market entry and disruption by global firms that have an established presence in technology and financial services;[10] and

(c) the 14 providers identified in the draft specific directions include recent entrants that the Final Report recognised have achieved "*rapid expansion*" in the UK confirming "*low barriers to entry and expansion for providers*" among smaller merchants in particular.[11]

2.13 In light of the market characteristics of card-acquiring services in the UK, it is important to ensure that any market interventions in the Provisional Decision preserve a fair regulatory playing field between existing and future providers of card-acquiring services, in order to mitigate against the risk that any remedies distort competition. In contrast, the failure to ensure that the remedies package is imposed through a general direction means that from the onset,

7 Provisional Decision, paragraph 2.11.

8 Provisional Decision, paragraph 2.12.

9 Worldpay response to interim report, paragraphs 1.6-1.11.

10 Worldpay response to interim report, paragraphs 1.52-1.55.

11 Final Report, paragraph 1.15.

this regulatory intervention is applied in a discriminating and unbalanced fashion, with no exceptional justification as would be required to take such a step.

An implementation period of at least 18 months is necessary

2.14 The Provisional Decision proposes that remedies must be in place and fully implemented no later than three months after the PSR's final directions are issued and that the PSR has received stakeholder feedback suggesting this would be a "*reasonable period for implementation*".[12] Worldpay has no knowledge as to which entity may have provided such feedback, but it should be obvious that regardless of the scope of the remedies ultimately determined, this timeframe will not be feasible. An implementation period of at least 18 months from publication of the Final Decision will be necessary in order to implement any remedies. In particular, an 18 month implementation period:

(a) would be required in order to enable Worldpay and other market participants to:

(i) implement the necessary IT system and operational process changes and arrangements required to create the summary box and trigger message remedies (including design, validation, implementation, and roll-out);

(ii) build, develop and test any 'online quotation tool' remedy if applicable (see below); and

(iii) make any necessary changes to POS terminal lease contracts (which also would involve system changes);

(b) would also be a much more reasonable timeframe, given that:

(i) the PSR has not published the conclusions from its market testing and is considering the publication of guidance specifying the relevant information to be contained in summary boxes, which could impact the time required to implement remedies; and

(ii) it is important that market participants have the opportunity to fully take account of the conclusions in the final decision, and to have continuing engagement with and guidance from the PSR throughout this period, before being required to implement any market remedies; and

(c) we note that the submissions above are broadly consistent with stakeholder views expressed during the roundtable discussion with the PSR on 20 July 2022, which revealed concerns across the card payments sector that an implementation period of three months would not be sufficient.

INDIVIDUAL PROPOSED REMEDY: BESPOKE SUMMARY BOX

3.1 The Provisional Decision sets out a 'summary box' remedy that contains key price and non-price information to be sent individually to merchants, accompanied by their monthly billing information, and shown prominently in the merchants' online account.

12 Provisional Decision, paragraph 2.17.

The 'summary box' remedy should only apply to the smallest merchants

3.2 Worldpay broadly supports the introduction of a summary box that is targeted towards the smallest category of merchants. In particular:

(a) smaller merchants may in principle benefit from such a remedy, given:

(i) merchants with annual card turnover of less than £500,000 generally receive a standardised product for card-acquiring services. For example, Worldpay's "Simplicity" and "Pay As You Go" tariffs are offered to merchants with annual card turnover of less tha [redacted]

(ii) tariffs designed for smaller merchants have a smaller number of transaction variables and will often have a "headline" transaction fee rate; and

(iii) in these circumstances, the information provided in a summary box using a standardised layout is more likely to provide a meaningful basis for a simple, indicative comparison between different providers of card-acquiring services; and

(b) this remedy would not be of benefit to larger merchants given that merchants with higher annual card turnover receive card-acquiring services on the basis of individually negotiated tariffs and have more complex card-acceptable requirements (e.g. multiple POS terminals, outlets, or currencies).

3.3 Worldpay sees no basis upon which merchants with annual card turnover of more than £10 million would benefit from a 'summary box' remedy. In any event, the necessary market testing would need to demonstrate that such a remedy would have a pro-competitive impact.

Method of delivery of the summary box

3.4 We note the Provisional Decision proposes that the summary box should be made available with any monthly (and any other periodic) billing information, and also via a merchant's online portal if billing information is received in this way. However, Worldpay considers that the method of delivery should be at the discretion of the service provider for the following reasons:

(a) this would enable the provider to tailor the delivery method to what it considers to be most appropriate for a particular merchant, e.g. based on the provider's default communication channels or in order to adhere to any preferred methods of communication that have been agreed with a particular merchant; and

(b) Worldpay also notes that current monthly billing information is already detailed and for more bespoke tariffs can be quite lengthy. Therefore including a significant amount of additional information is unlikely to be appreciated by the merchant customers.

Presentation of additional information, including non-price information

3.5 It is important that the summary box remedy does not prevent card-acquirers from providing their merchants with additional information that may be relevant or important to the services that they receive. In particular:

(a) Worldpay welcomes the confirmation that a directed PSP may provide additional information to merchants. However, further clarification is needed on the condition that such information must be presented "*separately from the bespoke summary box*";[13]

(b) we assume that providers of card-acquiring services may present additional information on the same page as the summary box (in the case of written communications) or on the same webpage (where the summary box is accessed via the merchants' online account), but it would be helpful if the PSR could confirm this point; and

(c) as explained in Worldpay's previous submissions, competition in the payments sector takes place in relation to both price and non-factor factors, and it is important that providers of card-acquiring services have the freedom to determine the most relevant information to include with the summary box to prevent a 'race to the bottom' on limited aspects of price competition (to the detriment of non-price factors).

Consultation options on the content and format of summary boxes

3.6 At this stage in the process, Worldpay considers that 'Option 1' of the summary box formats set out in the Provisional Decision would be preferable and most appropriate in comparison to Option 2 (we also understood that this is the PSR's current preference from the roundtable discussion on 20 July 2022).

3.7 However, Worldpay understands that the PSR is undertaking market testing in relation to the design options and format of summary boxes and looks forward to the publication of its conclusions before taking a definitive view as to the appropriateness of this remedy.

3.8 Finally, as noted above, it is important the providers of card-acquiring services are able to present additional information that they consider to be relevant and important to merchants.

INDIVIDUAL PROPOSED REMEDY: ONLINE QUOTATION TOOL

4.1 Worldpay welcomes the Provisional Decision not to proceed with the implementation of the 'generic summary box' remedy outlined in the Initial Remedies Consultation. As emphasised in Worldpay's previous submissions, we agree with the PSR's findings that generic summary boxes are "*unlikely to be effective because of the non-uniform nature of pricing for card-acquiring services*",[14] especially in respect of tariffs for card-acquiring services that are negotiated, bespoke and tailored to the needs of individual merchants' business requirements.

4.2 However, the Provisional Decision suggests that the objective behind the contemplated generic summary box, which the PSR is no longer proceeding with, was to enable merchants to "*help compare their current service with potential alternatives*", and that based on this analysis, the Provisional Decision has concluded that merchants would benefit from a newly proposed remedy – access to an online quotation tool. In particular, it is suggested that:

(a) the online quotation tool should prominently appear on each provider's website;

(b) the online quotation tool should provide merchants with an "indicative quote" by entering: (a) the merchant's total card acceptance in the previous 12 months (if

---

13 Provisional Decision, paragraph 3.9 of the draft directions.

14 Provisional Decision, paragraph 2.40.

available); (b) the average transaction value; and (c) merchant category code into a calculator;[15] and

(c) whilst the indicative quote is not intended to constitute a contractual offer, it must be "*reasonably proximate to what the provider may offer on a binding basis*".[16]

4.3 However, Worldpay has a number of material concerns with the rationale and effectiveness of this new proposal, including the difficulties that will be involved in implementing such a remedy, along with the current proposed scope and how this would work in practice. These points are set out in detail below.

The introduction of an online quotation tool would require fundamental, complex and very costly changes

4.4 Implementing an online quotation tool would be extremely complex and would require fundamental changes that are not justified or proportionate. Given this complexity, implementing this remedy would also necessarily involve significant cost. In particular:

(a) the obligation to provide an online quotation tool (and to ensure any contracted ISOs also provide the same) would constitute a significant and interventionist step;

(b) in this regard, we are concerned that the online quotation tool remedy was not consulted upon in the Initial Remedies Consultation and that no cost benefit analysis has been undertaken in relation to this remedy because the PSR did "*not specifically request information relating to the cost of implementing an online quotation tool*";[17] and

(c) although the draft CBA refers to information submitted by two stakeholders who submitted cost estimates relating to the publication of generic information that the PSR considers to be "*relevant*" in this context, we note that:

(i) although there may be elements of these cost estimates that are relevant, these estimates do not relate to the proposed remedy and are gross underestimates of the actual likely cost;

(ii) one of these respondents was an ISO, and not a provider of card-acquiring services and therefore will not be directly subject to this remedy; and

(iii) as explained in further detail below, in order for any online quotation tool to adequately consider all the relevant market features, it would be necessary for it to be considerably more complex than currently suggested. This would have a significant impact on the likely cost.

An online quotation tool would be unlikely to provide merchants with reliable pricing information

4.5 In addition to the likely complexity and the significant cost, we consider that an online quotation tool would provide no benefits to, in particular, larger, SME merchants, and would not provide them with reliable pricing information. There is also a high risk that the "headline indicative rate" would not be representative of the total cost to the merchant.

---

15 Provisional Decision, paragraphs 2.42-2.47.

16 Provisional Decision, explanatory notes to DRAFT Specific Direction X1, paragraph 4.

17 Provisional Decision, Annex 1, paragraph 1.36.

4.6 In particular, as submitted in our response to the Initial Remedies Consultation, comparison tools have previously been implemented by competition regulators in the context of consumer-facing markets (i.e. where there is no price negotiation and where consumers receive a more standardised/homogenous product).[18] However, the characteristics of the card-acquiring sector are very different as many merchants contract on the basis of tariffs that are individually negotiated, where the card-acquiring service involves a bespoke offering, and where pricing complexity arises as a result of the structure base line costs related to scheme and interchange fees. This means there is a high degree of heterogeneity between merchants and, in practice, there is no such thing as a standard price or standard product that can be easily compared. Promoting an online pricing tool for these merchants would discourage rate negotiation and remove the ability for merchants to understand additional appropriate products and options that would be discussed with representatives who understand merchants' needs.

4.7 The Provisional Decision appears to recognise the fact, but not the consequence of, this fundamental limitation when it notes that "*pricing structures for card-acquiring services are not uniform, and so online quotation tools will not be a suitable way for merchants to obtain complete and precise quotes*".[19] However, the proposed remedy as currently drafted would still require providers of card-acquiring services to ensure that prospective merchants receive indicative pricing and non-pricing information that is "*<u>reasonably proximate</u> to what the provider may offer on a binding basis*".[20]

4.8 In this respect, the non-uniform nature of card-acquiring services for larger customers means that an online quotation tool would not provide merchants with a complete and precise quote, and it is unlikely that an online quotation tool could provide merchants with a "*reasonably proximate*" quote. This is because:

(a) merchants that contract on the basis of more bespoke tariffs will always be referred to Worldpay's telesales or field team in order to provide that customer with a tailored and accurate quote reflecting the individual circumstances and requirements of the merchant in question;

(b) the prices offered to larger SME merchants will be based on negotiation which may even include products that are outside the scope of card payments. For example, participants that are active on both the card-issuing and card-acquiring sides of the market may seek to offer lower (or higher) prices for card-acquiring services as part of a negotiation that also includes the provision of retail banking services;

(c) quotes for larger merchants typically need to be bespoke in order to take into account:

(i) specific interchange and scheme fees, which are likely to be more complex, due to, for example, cross-border payments; and

(ii) due to the multi-faceted nature of the services, which include a significant number of service components (such as fraud, chargebacks, authorisation rates, service levels / uptimes, card present / card not-present options, mail-order-telephone-order transactions, virtual terminals, etc.), which Worldpay takes into account based on each merchant's specific requirements in relation to each of these items.

---

18 Worldpay response to Initial Remedies Consultation, paragraphs 6.15-16.

19 Provisional Decision, paragraph 2.48.

20 Provisional Decision, page 81.

4.9 It will accordingly be wholly impractical to design a remedy that seeks to provide such merchants with more complex card-acceptance requirements indicative or reasonably proximate pricing via an online quotation tool.

4.10 The difficulty in providing an indicative quote for larger merchants is likely to mean that an online quotation tool could mislead and give rise to unintended consequences:

(a) larger merchants would be unlikely to use the online quotation tool and therefore none of the PSR's suggested benefits would be realised for this category of merchant. In this regard, the Provisional Decision also accepts that there is little evidence from other sectors in relation to the effectiveness of online quotation tool remedies, and the CMA and FCA have generally found that the effectiveness of disclosure remedies in general is mixed, and in some cases, totally ineffective;[21]

(b) this would raise compliance challenges. In particular, the Provisional Decision does not define "*indicative*" or "*reasonably proximate*" pricing and it is unclear how providers of card-acquiring services would be expected to demonstrate compliance with this remedy and at what point the PSR would initiate enforcement proceedings if quotes are not adequately indicative or sufficiently proximate. Worldpay would welcome clarification and guidance on this point in the final decision to the extent this remedy is retained; and

(c) there is a significant risk that an online quotation tool would actually distort competition on the basis of "indicative" prices. This could mean, for example, that providers which focus on other non-price aspects of the service are penalised, as they will appear more expensive in comparison. Moreover, providers that attempt to "game" the comparison tool by quoting lower indicative prices than they would otherwise prepared to quote as a legally binding offer would be rewarded.

Conclusion

4.11 In light of the above, Worldpay does not consider that an online quotation tool remedy is appropriate, proportionate, or likely to have any beneficial impact on the market.

4.12 However, to the extent that the PSR concludes that an online quotation tool is nevertheless necessary, as with the summary box and trigger messaging remedies, at the very least the online quotation tool remedy should be limited to the smallest merchants only, for example, those with annual card turnover of less than £500,000. In this regard:

(a) smaller merchants are more likely to receive card-acquiring services on a relatively standard and uniform basis, and therefore it may be possible for an online quotation tool to provide an indicative comparison of simpler tariffs that is more aligned / based around a "headline rate"; and

(b) this would likely be easier for acquirers to implement for smaller merchants, for example, Worldpay already provides access to a price comparison tool for prospective merchants in relation to its "[redacted]" and "[redacted]" tariffs, and these could potentially be expanded to include the relevant aspects being considered by the PSR.

21 Provisional Decision, Annex 1, paragraph 1.42.

INDIVIDUAL PROPOSED REMEDY: TRIGGER MESSAGES

5.1 The Provisional Decision sets out a 'trigger message' remedy that requires providers of card-acquiring services to prompt merchants to shop around and / or switch through communications to their merchant customers including messages displayed prominently in their online account.

5.2 As explained in our response to the Initial Remedies Consultation, trigger messages that are targeted towards the smallest merchants and that are based upon existing communications channels between acquirers and their merchants (e.g. merchant contact method preferences) have a role to play.[22]

A 'trigger messages' remedy would only benefit the smallest merchants

5.3 The Provisional Decision notes that responses to messaging in the card-acquiring sector can "*vary wildly*" and that "*even well-designed trigger messages may potentially only increase switching by relatively small amounts*". It seeks to allay these concerns by citing three examples of trigger messaging remedies in other sectors. However, the context of these examples is completely different and arguably irrelevant, given that they demonstrated "*impacts on <u>consumer</u> behaviour*" (emphasis added).[23] No plausible evidence is presented to demonstrate that trigger messages would be either effective or necessary in business-to-business markets for merchants, including those with annual card turnover of up to £50 million.

5.4 In this regard:

(a) Worldpay recognises that trigger messages and similar 'nudge' remedies have been implemented by regulators in *consumer* markets in order to increase consumer engagement. Accordingly, if contemplated in the present context, they should be limited to the very smallest categories of merchants, where there may be some potential that, by analogy, such merchants may be prompted by such messages to search and switch. However, this comment is in a context where, as set out in earlier submissions, the PSR has not provided a robust evidential basis to establish that such merchants have low levels of engagement or switching;

(b) however, it is highly unlikely that a trigger message is needed or would be effective in relation to businesses with a degree of financial expertise and which are currently well served by independent consultants or brokers with payments expertise. In addition, corporate customers will often have dedicated relationship managers that are responsible for their card-acquiring service. In this context, the receipt of a monthly "trigger message" is unlikely to be effective or necessary for SME merchants of any scale. It will comprise an unnecessary and harmful regulatory intervention given that it will merely increase transaction costs that are, ultimately, passed on to consumers.

5.5 Therefore, in light of the above, Worldpay considers that, as in the case of the proposed summary box remedy, any trigger messages remedy should be limited to merchants with an annual card turnover of less than £500,000.

---

22 Worldpay response to Initial Remedies Consultation, paragraph 1.7(c).

23 Provisional Decision, paragraph 1.59.

Design and content of trigger messages

5.6 The Provisional Decision sets out three prescribed formats of trigger messages. We welcome the PSR's confirmation that it is undertaking market testing, however it is important that providers of card-acquiring services have the opportunity to submit representations on trigger messages in light of this research.

An annual trigger message would be more effective and proportionate

5.7 The Provisional Decision requires card-acquirers to provide a trigger message to merchants 30 calendar days before the end of the minimum term of their card-acquiring service contract. To support this approach, the Provisional Decision refers to evidence from research undertaken by Ofcom in consumer telecoms markets which demonstrates that trigger messages were most effective when received close to the end of their contracts (between 10 and 40 days prior to the end of the contract).[24]

5.8 However, for merchants that exceed their minimum term or do not have a fixed-term contract for card-acquiring services, the Provisional Decision requires that these trigger messages are sent with each invoice at least monthly. This is problematic for at least two reasons:

(a) merchants who decide not to switch after one year are more likely to have made an intentional choice to remain with their current provider. Therefore in these circumstances, it would be disproportionate and potentially frustrating to the merchant to receive monthly reminders that they can switch; and

(b) providing merchants with trigger messages too frequently would both result in unnecessary cost and, as noted in the Provisional Decision, evidence from other markets shows that "*triggers received too early or too frequently can be less effective*".[25]

5.9 Worldpay would support a trigger message communicated to merchants once on an <u>annual basis</u>. Communications that are delivered on an annual basis would be more prominent and achieve a more reasonable balance between ensuring that merchants are regularly prompted to search and switch, but are not inundated with monthly communications that contain substantively the same information.

5.10 An annual trigger message would also be more appropriate when considered in the context of the regular communications and "trigger points" that merchants receive as part of their day-to-day engagement with card-acquirers, including invoices, price change notifications, rival acquirers, competitor marketing, customer service interactions and client relationship managers.[26]

Method of delivery of the trigger messages

5.11 The PSR is currently proposing that the trigger messages are delivered with each invoice, at least monthly (after the initial term), and shown prominently in the merchant's online account. However, as with the summary box information, Worldpay considers that the method of delivery should be at the discretion of the service provider. In particular:

---

24 Provisional Decision, paragraph 2.81.

25 Provisional Decision, paragraph 2.81.

26 Worldpay response to initial remedies consultation, paragraph 6.25. See also Chapter 5 of Worldpay's response to the initial report.

(a) this would enable the provider to tailor the delivery method to what it considers to be most appropriate for a particular merchant, e.g. based on the communication method that is typically used for a particular merchant;

(b) current monthly billing information is already fairly long and detailed, and therefore including a significant amount of additional information is unlikely to be appreciated by the merchant customers; and

(c) similarly, if a customer has opted out of receiving monthly invoices, Worldpay considers that it may be annoying for the customer to receive a separate trigger message each month in an unwanted communication.

INDIVIDUAL PROPOSED REMEDY: POS TERMINALS

6.1 Worldpay welcomes the PSR's confirmation that it does not intend to pursue a "*technical remedy*" in relation to the provision of POS terminals, for example, a remedy mandating terminal portability. As set out in the Provisional Decision, regulatory intervention of this nature "*could have the undesirable effect of dampening innovation in card acceptance technology and services*"[27] and there is already evidence that the payments sector has responded with new and innovative card-acceptance alternatives to traditional POS terminals since the launch of this market review.[28]

6.2 The Initial Remedies Consultation did not set out any contractual remedies as the PSR intended to prioritise its examination of technical remedies in the first instance. However, we understand that the contractual remedy set out in the Provisional Decision would impose a maximum initial term of 18 months for POS terminal lease and rental contracts, subsequent to which contracts must be transferred onto rolling renewal terms of no more than one month. The proposed remedy would apply to all new terminal lease and rental contracts and renewals on existing contracts with merchants that have an annual card turnover of up to £10 million.

Contractual remedies that apply to POS terminals would reduce choice and innovation across card-acceptance products

6.3 Worldpay welcomes the proposal that the 18-month minimum term limit on POS terminal contracts would not apply to merchants with an annual card turnover exceeding £10 million. The Provisional Decision is correct to identify that merchants with annual card turnover exceeding £10 million are more likely to procure their POS terminals independently from third parties, rather than directly from their providers of card-acquiring services.

6.4 However, in relation to the scope of the remedy for merchants with an annual card turnover below £10 million, there is a risk that the proposed 'contractual' remedy will lead to a reduction in merchant choice and / or increasing upfront costs by removing the choice for merchants to actively "opt-in" to ancillary payment services sold alongside or in conjunction with terminal solutions. This is potentially particularly relevant to "SmartPOS" terminals and integrated payments solutions which generally require a contractual term in excess of 18 months to be offered on terms attractive to the buyer and provider alike. It is therefore important that the definition of POS terminals should be delineated carefully to reflect the scope of the remedy as identified by the PSR, namely applying to traditional standalone terminals rather than the innovative ancillary products sold alongside them.

---

27 Provisional Decision, paragraph, 2.108.

28 Worldpay response to Initial Remedies Consultation response, paragraph 6.37.

Yorkshire Payments

YORKSHIRE® PAYMENTS
STRAIGHT TALKING CARD SOLUTIONS

[redacted]
www.yorkshirepayments.com

July 2022

To: Payment Services Regulator

,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the in the strongest possible terms, to these proposed measures.
The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers.

No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

We would therefore like to register our proposal of a compromise term of 36 months.

Yours faithfully

[redacted]
Director

5Tel

5Tel
[redacted]

Customer Services:
Tel: [redacted]

For General enquiries:
[redacted]
www.5tel.co.uk

To: Payment Services Regulator **01/08/2022**

Dear Sirs,

Re: Card-acquiring market remedies. Provisional decision June 2022

We wish to register our objection in the strongest possible terms, to these proposed measures. The limitation of 18 months maximum for terminal contracts will have a serious impact upon our business and severely hamper our ability to offer competitive products to new customers. No other B2B service is limited in this way, and we believe this limitation will have a negative impact upon future innovation and competitiveness.

[redacted]

[redacted]

[redacted]

PUB REF: CP22/3 Submissions

12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk