Payment Systems Regulator

Policy statement

Card-acquiring market remedies

Final decision

October 2022

PS22/2

Contents

1 Introduction

- Card-acquiring services enable merchants (like newsagents, supermarkets and online retailers) to accept card payments.
- Our review of the card-acquiring market found that the supply of card-acquiring services does not work well for merchants with annual card turnovers of up to £50 million. These merchants could make savings by shopping around or negotiating with their current supplier, but many do not.
- In January 2022 we published proposals to address the features of concern we identified in the market review and help merchants get better deals for card-acquiring services.
- Following consultation on our proposals, in June 2022 we published a provisional decision on remedies to address the features of concern.
- Having considered all the evidence available gathered through the market review and remedies consultations, this document contains our final decision on remedies and specific directions to put them into effect.

Our card-acquiring market review

1.1 When a customer makes a card payment, the merchant uses card-acquiring services to accept it. These services are critical to the UK economy because they enable consumers and businesses to use their cards to pay for goods and services.

1.2 There are around 157 million cards issued in the UK and 65% of all payments made by consumers in 2021 were made using credit or debit cards.[1] Card-acquiring services' crucial role in the payments sector means they must work well for merchants, and ultimately consumers.

1.3 In November 2021 we published the final report on our review of the market for card-acquiring services.[2] Our findings included three features of concern in relation to the supply of card-acquiring services. In January 2021 we published a consultation document[3] inviting comments on four potential remedies to address these. We summarise the findings of the market review and the remedies proposals below.

1 See UK Finance: UK Payment Markets 2022 Contents.pdf (ukfinance.org.uk)

2 MR18/1.8, *Market review into the supply of card-acquiring services: Final report* (November 2021)

3 CP22/1, *Market review into card-acquiring services: Consultation on remedies* (January 2022)

Features of concern in the card-acquiring market

1.4 In the market review we identified three features of concern in relation to how the market operates for merchants with turnovers of up to £50 million per year. These restrict merchants' ability and willingness to search and switch between card acquirers. The three features of concern are:

- **Acquirers and independent sales organisations (ISOs) do not typically publish their prices for card-acquiring services**. Their pricing structures and approaches to headline rates vary significantly, which makes it difficult for merchants to compare prices for ISOs, acquirers, and payment facilitators.
- **The indefinite duration of acquirer and payment facilitator contracts for card-acquiring services** may explain, at least in part, why many merchants do not consider switching or searching for other providers regularly. This is because they do not provide a clear trigger for merchants to think about searching for another provider and switching.
- **Point of Sale (POS) terminals and POS terminal contracts that prevent or discourage merchants from searching and switching provider of card-acquiring services**. This can occur because of a combination of two factors:
    - 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.
    - A merchant could incur a significant early termination fee when cancelling its existing POS terminal contract, even if no such fee would apply when cancelling its card-acquiring services contract.

1.5 We concluded that remedying these features of concern will improve outcomes for these merchants by:

- encouraging them to search and switch, or negotiate with their existing provider
- reducing the obstacles to switching
- 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

1.6 All these effects will mean that, on average, merchants will get better deals on their card-acquiring services, which will ultimately benefit consumers.

Consultation on potential remedies

1.7 In January 2022 we consulted on potential remedies to address the features of concern. We received 23 responses to the consultation document.[4] Additionally, we engaged with key stakeholders during the consultation period, including a webinar on 22 March which was open to all and attended by 63 stakeholders. We issued formal Information Requests under Section 81 of the Financial Services (Banking Reform) Act 2013 (FSBRA) to obtain information from providers to inform our policy analysis and cost benefit analysis (CBA).

1.8 Following closure of the consultation and consideration of all the evidence available to us, we published a second consultation on remedies in June 2022. This included a provisional decision, draft specific directions, and a draft CBA which set out our provisional conclusion that the benefits of our proposed remedies would outweigh the costs. We received 38 responses to the consultation.[5] We continued to engage directly with stakeholders and around 100 attended our roundtable (physically and online) on 20 July 2022.

1.9 During this phase of the project, we engaged bilaterally with external stakeholders over 60 times, took advice from the PSR Panel and conducted market testing in two fieldwork research exercises.[6]

This document

1.10 In this document we:

- set out our final decision and explain how we have taken this based on all the evidence available to us
- publish the final CBA showing that the benefits of the remedies outweigh the costs
- publish specific directions to give effect to the remedies we are proposing

Package of remedies

1.11 Having assessed all the evidence available to us, we are mandating three remedies to address the features of concern identified in the card-acquiring market. They are:

- 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 with the new online quotation tools,

4 www.psr.org.uk/publications/consultations/cp22-1-submissions/

5 www.psr.org.uk/publications/consultations/cp22-3-submissions/

6 Research was conducted for us by Fieldwork Hub. In summer 2021, Fieldwork Hub conducted online interviews with merchants about their experience of card-acquiring services. In summer 2022, Fieldwork Hub conducted further online interviews on the format and content of the summary box and trigger message proposals we presented us for consultation.

which providers will be required to make available. This will help merchants compare all available offerings.

- 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, required to be provided at least once every 30 calendar days.
- A maximum duration of 18 months for POS terminal lease and rental contracts, and maximum one-month notice after any renewal.

1.12 We have concluded that these remedies will be effective and proportionate, individually and in combination, to address the features of concern identified in the card-acquiring market review.

1.13 We will implement the remedies through specific directions given to the most significant providers of card-acquiring services to the merchants we are seeking to protect. These providers (the directed providers) are listed in the specific directions and in Chapter 2. All remedies will apply to the directed providers and any ISOs that they have a contract with to provide services to merchants.

1.14 We explain each of these remedies in Chapter 2, and summarise them here in Table 1, mapped to the feature of concern they will address.

Table 1: Features of concern and remedies that will address them

Feature of concern	Remedy
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.	Bespoke summary boxes which will be used in conjunction with the new online quotation tools
The indefinite duration of acquirer and payment facilitator contracts for card-acquiring services means there is no trigger for merchants to think about searching for another provider, renegotiating their contract, or switching.	Trigger messages to prompt merchant engagement
POS terminals and POS terminal contracts can prevent or discourage merchants from searching and switching provider of card-acquiring services.	Contractual limits: 18-month maximum initial term for POS terminal lease and rental contracts, monthly notice thereafter

Evaluation and monitoring of the remedies

1.15 We are considering how to develop a framework to evaluate merchant and consumer outcomes in the card-acquiring market. We could use this to assess the effectiveness of our remedies, and if they are still required considering market developments. The framework could also be used to implement a proportionate means to monitor compliance. This is in response to the feedback received from several respondents that:

- more information is needed on our approach for monitoring and enforcement
- it will be difficult for some directed providers to manage compliance by downstream ISOs and POS terminal providers

1.16 We will be engaging with industry on the development of an appropriate framework, including possible trials, during the implementation period. We are not asking for regulatory returns from directed providers as part of the specific directions. We are also mindful of the need not to require information from directed providers which would have a significant impact on their IT systems or require material system changes.

Equality and accessibility of the remedies

1.17 We want to ensure that all merchants with annual card turnovers of up to £50 million that need to can benefit from our remedies. We are also mindful of our duties under the Public Sector Equality Duty (PSED).[7] As such, we conducted an Equalities Impact Assessment (EIA) to assess the impact of the remedies on all affected stakeholders, including considering the Protected Characteristics set out in Section 149(7) of the Equalities Act 2011.

1.18 We are satisfied that directed providers can implement the remedies without any disadvantage to people with Protected Characteristics. Directed providers should use their existing communication channels with merchants to ensure they can access the summary box, online quotation tool and trigger messages in a timely manner, considering any additional needs they may have. This might include providing alternative methods of communication (for example, visual aids, text, audio, or Braille). We expect directed providers to have these services in place as part of their regular communication channels.

7 The PSED was established under the Equalities Act 2011, Section 49.

Structure of the rest of this document

1.19 The remainder of this document is structured as follows:

- In **Chapter 2** we explain the remedies we are introducing, and how they will be introduced.
- In **Annex 1** we publish the CBA.
- In **Annexes 2, 3, and 4** we publish the specific directions.

2 Card-acquiring market remedies

In this chapter we explain our conclusions on remedies to address the features of concern identified in the market review. The remedies are:

- Summary boxes containing bespoke key price and non-price information, which card-acquiring service providers must send individually to each merchant and make available in their online account. Merchants can use the summary boxes and the new online quotation tools to compare offerings between providers.
- Trigger messages to prompt merchants to shop around and/or switch to be sent by providers of card-acquiring services. The timing of these will be linked to minimum contract term expiry dates. Where there is no expiry date, providers must send a trigger message at least once every 30 calendar days.
- A maximum duration of 18 months on POS terminal lease and rental contracts, and a maximum one-month notice period after any renewal.

Introduction

2.1 In this chapter we explain our final decision on remedies to address the features of concern identified in the market review.

2.2 We considered all the evidence available to us, including:

- the analysis and findings of the market review
- responses to the consultation and additional feedback from bilateral engagements, a webinar and a roundtable
- online testing of the summary box and trigger message with merchants
- information submitted to us in response to FSBRA Section 81 Information Requests
- evidence submitted by stakeholders in our engagement with them
- our final CBA

Package of remedies

2.3 We will introduce three remedies to address the features of concern identified in the card-acquiring market. They are:

- Summary boxes containing bespoke key price and non-price information, which card-acquiring service providers must send individually to each merchant and make available in their online account. Merchants will be able to use the summary boxes alongside new online quotation tools, which providers will be required to make available. This will help merchants compare all available offerings.
- 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.
- A maximum duration of 18 months on POS terminal lease and rental contracts, and maximum monthly renewal thereafter.

2.4 These remedies will be effective individually and in combination to address the features of concern identified in the card-acquiring market review.

2.5 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.

2.6 We are giving specific directions to implement the remedies to the 14[8] most significant providers of card-acquiring services to the merchants affected by the features of concern. We set out the specific directions in Annexes 2, 3 and 4 to this document.

Scope of the remedies and specific directions

Our proposals in the provisional decision

2.7 We proposed to implement the remedies by giving specific directions to the 14 most significant providers of card-acquiring services to the merchants we want to protect. We identified these providers based on volumes and values of the transactions they processed, and the numbers of small and medium-sized merchant customers they served.

8 On 1 August 2022 Global Payments announced it will acquire Evo Payments. If this acquisition is completed, the merged company will be subject to a single specific direction.

2.8 We proposed that the remedies addressing price transparency (summary boxes and online quotation tools) and indefinite contract length (trigger messages) will apply to the directed providers in respect of their merchant customers with card turnovers of up to £50 million. These are the merchants we identified as suffering harm because of these features.

2.9 The remedy addressing POS terminals and POS terminal contracts would apply to the directed providers in respect of their merchant customers with card turnovers of up to £10 million. This is because larger merchants with annual card turnovers above £10 million are more likely to only buy card-acquiring services from their acquirer; they would source card acceptance products, including POS terminals, from third parties. Therefore, POS terminals and contracts are less likely to prevent or discourage these merchants from searching and switching acquirers.

Points raised in consultation on the scope of the directions and our responses

2.10 Whilst some respondents to consultation supported our proposal to implement the remedies by giving specific directions to the 14 most significant providers and their contracted ISOs, a number disagreed with this. Respondents who disagreed with our proposals said that giving directions only to 14 providers risked distorting competition. Some said we should make directions to the whole market for the remedies. Some questioned the methodology we used to identify the 14 providers.

2.11 We have fully considered all the responses to consultation and other evidence available to us. The giving of specific directions to the 14 most significant providers of card acquiring services will mean that around 95% of transactions for the merchants our remedies will protect will be regulated. We believe this will be the most proportionate and targeted approach to our remedies and that it will address the harms we have identified effectively. We think providers not included in the directions may choose to voluntarily implement the measures to help merchants compare prices. Some may voluntarily publish online quotation tools and summary boxes and limit the length of POS terminal contracts, as this is likely to better support merchants' expectations when they are looking for acquiring services.

2.12 We have not attempted to quantify the potential additional benefits associated with voluntary adoption of these measures by providers who are not directed.

2.13 We will keep this under review and may take further regulatory action if necessary.

2.14 Further, implementation of remedies through specific directions on the most significant named providers will enable us to focus monitoring and enforcement activity in a more targeted and efficient way to help address the features of concern. We have concluded that this is the most effective and proportionate way to ensure that merchants are protected and competitive benefits flow to the market.

2.15 We are satisfied that the methodology used to identify the 14 directed providers is robust. We used data on volume of transactions, value of transactions, and number of merchants supplied to identify these providers.

2.16 We will keep the companies directed under review and may extend the mandate by directing the card schemes, Mastercard and Visa, to mandate all acquirers who are members of their schemes to adopt the remedies, if necessary.

Our final decision on scope of the directions

2.17 We have concluded that, to implement remedies to address the features of concern, we will give specific directions to the 14 most significant providers of card-acquiring services to the merchants our remedies will protect. This will include the firms' associated companies and their contracted ISOs. For ease of reference the 14 providers are:

- Adyen UK Limited
- Barclays Bank PLC
- Chase Paymentech Europe Limited
- Elavon Financial Services DAC
- EVO Payments International GmbH, Branch UK
- First Data Europe Limited
- First Merchant Processing (Ireland) DAC
- GPUK LLP
- Lloyds Bank plc
- PayPal (Europe) Sarl et Cie SCA
- Square UK
- Stripe Payments UK Ltd
- SumUp Payments Limited
- Worldpay (UK) Limited

2.18 The remedies addressing 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 card turnovers of up to £50 million.

2.19 The remedy addressing POS terminals and POS terminal contracts will apply to the directed providers in respect of their merchant customers with card turnovers of up to £10 million, reflecting the findings in our final report.

The remedies

2.20 In the remainder of this chapter, we explain our conclusions for each remedy. The explanation is structured to explain the remedies according to the feature of concern they are designed to address.

Remedies to address the feature of concern that acquirers and independent sales organisations (ISOs) do not typically publish their prices for card-acquiring services

Our proposals in the provisional decision

2.21 In our provisional decision we proposed to address this feature of concern by requiring card-acquiring service providers to send each merchant a summary box containing bespoke key price and non-price information and make it available in their online account. Providers have to also provide online quotation tools that merchants can use alongside the summary boxes to compare providers.

2.22 We set out our provisional conclusion that providers should provide summary boxes in a prescribed format, which we will publish. We presented options for summary box design for consultation. We also proposed that online quotation tools should use a format we prescribed. This format would closely follow the summary boxes, to make it as easy as possible for merchants to compare providers.

Points raised in consultation on summary boxes and online quotation tools and our responses

2.23 There was broad support for our proposal for summary boxes and online quotation tools.

2.24 Some respondents were concerned that summary boxes and online quotation tools may be too complex and hence difficult for merchants to use, or even misleading. Others said that the format options we presented were too prescriptive, and that providers should be given more discretion on format and content.

2.25 Some respondents also said it would be difficult for payment service providers (PSPs) to enforce provision of summary boxes and online quotation tools on downstream ISOs sales channels.

2.26 Of the format options presented for consultation, more respondents preferred option 1 than option 2 (as did the merchants that participated in our independent research).

2.27 We have fully considered all the responses to consultation and other evidence available to us, including our independent research findings. We have concluded that summary boxes and online quotation tools will be important facilities to help merchants understand their card-acquiring service and potential options to switch. They will be helpful for merchants when they are first considering their options. We acknowledge that they may need to have more detailed conversations with providers to get a full quotation and understand the complete service offering. These remedies will also directly address the feature of concern that acquirers and ISOs do not typically publish their prices for card-acquiring services.

2.28 A mandatory design for summary boxes and online quotation tools is an important feature of this remedy. Merchants should be able to compare their options as easily as possible and a common format will help with this. We agree that the information should not be unnecessarily complex, so have adapted our solution from option 1 in our provisional decision. For example, we are adopting some proposals from respondents to improve the format and content of summary boxes and online quotation tools, such as the addition of commercial cards to the information on card acceptance costs.

2.29 We understand the directed providers will need to manage compliance with these requirements through downstream ISO sales channels, as the remedy will also be applicable to the ISOs. They can do this by putting contractual requirements on the ISOs.

2.30 We are adopting some proposals from respondents to improve the format and content of summary boxes and online quotation tools – for example, the addition of commercial cards to the information on card acceptance costs.

Our final decision on summary boxes and online quotation tools

2.31 We confirm our provisional decision to mandate the directed providers to provide bespoke summary boxes to every merchant customer with an annual card turnover of up to £50 million.

2.32 We have decided to confirm our provisional decision to mandate bespoke summary boxes to every merchant customer of the directed providers who has an annual card turnover up to £50 million, including their contracted ISOs.

2.33 Since our provisional decision, we tested options for summary box design with a small sample of merchants, using the options we presented for consultation in our provisional decision. We have published a summary and conclusions from this exercise on our website.[9]

2.34 Summary boxes must be provided in the format we prescribe. We published this format together with advice to providers and merchants on how to use it to ensure merchants receive consistent and comparable information from their provider. This material is

9 www.psr.org.uk/publications/general/camr-research-findings. Research was conducted for us by Fieldwork Hub. Fieldwork Hub conducted online interviews on the format and content of summary box and trigger message proposals presented by us for consultation.

available on our website.[10] The format for summary boxes is based on the options we presented in the provisional decision and incorporates evidence from consultation responses and the merchant testing exercise.

2.35 Providers must include the summary boxes in merchants' monthly billing information and show them prominently in the merchant's online account. This is a cost-effective and efficient method of delivery using existing communications channels.

2.36 We confirm our provisional decision to mandate online quotation tools. Information generated through use of online quotation tools must be provided to merchants in the same format we have prescribed for the summary box.

2.37 The online quotation tool is to be shown prominently on each provider's and ISO's website. Any merchant can then obtain an indicative quote for card-acquiring services by entering information into the calculator.

2.38 The summary box and online quotation tools will be transparently linked and the opportunity to use online quotation tools will be signposted from every merchant's summary box.

2.39 For merchants without summary box information (either they do not currently accept cards, or receive card-acquiring services from a provider that is not covered by our proposed directions), it will still be possible to use online quotation tools using estimated information to obtain initial indicative quotes.

2.40 Since pricing structures for card-acquiring services are not uniform, summary boxes and online quotation tools will not be a suitable way for merchants to obtain complete and precise quotes. However, they could enable merchants to compare several indicative quotes more easily than they can now and follow up with providers to get a more comprehensive quotation.

2.41 We are satisfied that the remedies are the most effective and proportionate means by which to address the feature of concern for all the reasons we have set out above.

2.42 In reaching this decision, we are also mindful of the requirements to provide information set out in Articles 9 and 12 of the Interchange Fee Regulation (IFR).[11] These deal with the 'unblending' of charges and information to merchants about card transactions. The specific directions are intended to supplement the IFR requirements and do not interfere with the obligations set out in that legislation. In particular, the summary box and online quotation tools will enable merchants to engage with their options and compare offerings more effectively before and at the point of purchase, whereas IFR requirements deal with transparency for existing merchant customers.

10 www.psr.org.uk/publications/general/camr-implementation-advice

11 https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A32015R0751 The Interchange Fee Regulation (IFR) can be found at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A32015R0751

Remedies to address the indefinite duration of acquirer and payment facilitator contracts for card-acquiring services

Our proposals in the provisional decision

2.43 In our provisional decision we proposed trigger messages as a remedy to address this feature of concern.

2.44 We said that trigger messages will need to address two types of contracts:

- contracts where there is a minimum term
- indefinite contracts with no minimum term

2.45 We proposed that we would prescribe the trigger messages and presented wording options for consultation.

Points raised in consultation on trigger messages and our responses

2.46 There was broad support for our proposal for trigger messages.

2.47 Some respondents commented on the frequency of delivery of trigger messages, particularly our proposal that trigger messages should be delivered with each invoice at least monthly for merchants that have a contract with no minimum term. Some considered this too frequent and that the impact of such a frequent reminder may be lost over time. Some respondents also suggested that it may lead merchants to question the commitment of their current provider if they were reminded of the benefits of switching.

2.48 Some respondents had proposals and suggestions for the wording of trigger messages to make them simpler.

2.49 We have fully considered all the responses to consultation and other evidence available to us, including our independent research with merchants. We have concluded that trigger messages will be important to prompt merchants to consider their options when they approach the end of a minimum term contract or have a contract with no minimum term. It will remind them that they can negotiate an improved deal with their current provider or switch to a new provider and serve as a call to action. In turn, this will help address the indefinite duration of contracts for card-acquiring services.

2.50 For merchants with contracts with no minimum term we have concluded that a monthly reminder of the prompt is not too frequent. The trigger message is a reminder to the merchant that they could look for a better, more suitable, or less expensive, deal. For that reason, it makes sense for the trigger message to reflect each merchant's underlying contractual position. It also directly addresses the harm we have identified of indefinite card-acquiring contracts.

Our final decision on trigger messages

2.51 We confirm our provisional decision to mandate the directed providers to send trigger messages to every merchant customer with an annual card turnover of up to £50 million.

2.52 Since our provisional decision, we tested our proposed options for the wording of trigger messages with a small sample of merchants. We have published a summary and conclusions from this exercise.[12]

2.53 As identified in the provisional decision, trigger messages will be required to conform to our format. This will be important to ensure that merchants are given consistent prompts and information, irrespective of their provider or services they consume. The prescribed form of wording for the trigger messages incorporates evidence from consultation responses and the merchant testing exercise we conducted for trigger message options.

- Trigger messages must be included in the monthly invoice sent to the merchant.
    - Where the merchant has a contract with a minimum term (initial or renewed), the trigger message must be included with the invoice sent closest to the date which is 30 calendar days before the expiry of the minimum term.
    - Where the merchant has a contract with no minimum term (that is, one which lasts for an indefinite period), the trigger message must be sent with each invoice at least monthly.
- Trigger messages must also be shown prominently to the merchant in their online account.
    - Where the merchant has a contract with a minimum term (initial or renewed), the trigger message must be continuously available online between the date 30 calendar days before the expiry of the initial minimum term and the date on which the initial minimum term expires.
    - Where the merchant has a contract with no minimum term, the trigger message must be shown prominently to the merchant in their online account.

2.54 Trigger messages must conform to our format which may change from time to time, which is available on our website.[13]

2.55 We are satisfied that the remedy will be the most effective and proportionate means by which to address the feature of concern, for all the reasons that we have explained above and in our final CBA.

12 www.psr.org.uk/publications/general/camr-research-findings

13 www.psr.org.uk/publications/general/camr-implementation-advice

Remedies to address POS terminals and POS terminal contracts that discourage merchants from searching and switching provider of card-acquiring services

Our proposals in the provisional decision

2.56 In our provisional decision we proposed to mandate that the duration of POS terminal lease and rental contract initial minimum term periods should be no greater than 18 months. In addition, after the expiry of initial minimum terms, contracts that do not terminate immediately at the minimum term would move to rolling renewal terms of no greater than 31 calendar days.

Points raised in consultation on POS term contractual remedies and our responses

2.57 While some respondents supported our proposal, a number challenged the restriction of 18 months as a maximum contract minimum term. Some said this would damage ISO business models and may result in recovery of costs through increases to monthly rental charges.

2.58 Prior to consultation, we determined that the current monthly lease and rental costs for POS terminals are more often recovered within 18 months under current contractual arrangements. This was confirmed by the evidence we obtained through consultation and engagement with stakeholders. We also know that the industry is already moving away from longer contract durations. Furthermore, POS technology is innovating to deliver lower costs and more efficient solutions, such as softPOS and mobile phone applications. Therefore, we concluded that the remedy will not disrupt efficient commercial models for lease or rental of POS terminals – for example, where charges are based on fair and reasonable efficiently incurred costs.

2.59 We understand there is a risk that termination fees levied at the end of POS terminal lease and rental contracts could become a barrier to switching between card-acquiring services. For example, providers could seek to shift cost recovery methods from monthly rental charges to contract termination payments. We will mitigate this risk by requiring any POS terminal lease or rental termination fees to be cost based, fully transparent, and explained to merchants before they enter into their contract.

Our final decision on POS terminal contractual remedies

2.60 We have decided to confirm our provisional decision to mandate that duration of POS terminal lease and rental contract initial minimum term periods should be no greater than 18 months; and that, after the expiry of initial minimum terms, contracts that do not terminate immediately at the minimum term must move to rolling renewal terms of no greater than 31 calendar days. This remedy will apply to every merchant customer of the directed providers with an annual card turnover of up to £10 million. It will apply to all terminal lease and rental contracts entered into after the implementation deadline. For existing contracts, any initial minimum term will be able to complete before moving to rolling renewal terms of no greater than 31 calendar days (existing contracts with no initial minimum term must move to these renewal terms after a maximum of 18 months). We have concluded that this remedy will be effective in addressing the feature of concern that lengthy POS terminal contracts can discourage merchants from switching provider.

2.61 Any exit or termination fees for POS terminal lease and rental contracts will be required to be cost based, fully explained and transparent to merchants before they enter into their contract.

2.62 Directed providers will need to ensure that POS terminal lease or rental providers supplying their merchant customers comply with the requirements of the remedy. In some cases, merchants procure POS terminals from a third party, independently of the PSP providing them with card-acquiring services (that is, the POS terminal supplier to a merchant has no contractual relationship with the merchant's card-acquiring service provider or ISO selling that provider's services). The requirements will not apply in these cases, but this is not common for the segment of the market we are considering (merchants with annual card turnovers of up to £10 million).

2.63 We considered whether the protections we are putting in place are also provided to merchants under the Consumer Credit Act 2004 as amended[14] which may be applicable to some arrangements for the supply of POS terminals to merchants (such as where the merchant is a sole trader). The Consumer Credit Act gives consumers rights to terminate a contract in certain circumstances. Our directions do not conflict with nor duplicate these rights because the Consumer Credit Act concerns consumer rights to terminate a contract, whereas the specific direction is focused on contract duration. Also, most merchants would not be covered by consumer protection provisions in the Consumer Credit Act.

2.64 We are satisfied that the remedy will be the most effective and proportionate means by which to address the feature of concern for all the reasons set out above and in our final CBA.

The remedies will work individually or in combination

2.65 Our CBA shows that the remedies we are proposing will work effectively and proportionately individually, in combinations or as a package.

2.66 We described our conclusions in relation to each remedy earlier in this chapter. These, considered individually, would improve the ability of merchants to engage with their options in the market by searching for better deals and switching if they wish. In the CBA (Annex 1) we demonstrate that the benefits of each remedy would outweigh its costs.

14 https://www.legislation.gov.uk/ukpga/1974/39/contents

2.67 While each remedy would be effective and proportionate individually, we concluded that they will be more so in combinations and as a package. For example, the limit on duration of POS terminal lease and rental contracts will reduce current barriers to switching between card-acquiring services. Merchants will be more likely to explore opportunities to switch as they receive information in their summary box and are prompted by timely trigger messages. They will be able to compare between their options using quotation tools. Hence there are synergies between the remedies.

2.68 In the CBA we also explain how:

- Overall costs would be lower for a package of remedies than the sum of their parts because some costs of implementation may be shared.
- The benefits flowing from the remedy options may also be higher in combination than on a stand-alone basis, as the measures could work together to facilitate engagement more effectively together than if implemented individually.

Implementation period for the remedies

2.69 In our provisional decision, we said that the remedies would be required to be in place and fully implemented no later than three months after the final directions are given. In responses to consultation and other stakeholder engagement, several providers presented evidence that this deadline would be challenging. Some asked for six to nine months for implementation and some as much as 12 months. Others said that three months was perfectly feasible.

2.70 We acknowledge that an implementation period of three months would be challenging for remedies which will require systems changes or development. As such, we will include longer implementation periods for the summary box, online quotation tool and trigger message remedies. We decided that the required implementation for these remedies will be nine months after the specific directions are given. This period will allow for reasonable systems changes, taking account of normal systems maintenance and scheduling of systems freezes.

2.71 The 18-month limit on the initial term of POS terminal lease and rental contracts is a contractual reform which does not require systems development. Therefore, we decided that three months after the specific directions are given is an appropriate implementation period for this remedy. It will apply to all contracts entered into after the implementation deadline. For existing contracts, any initial minimum term will be able to complete (but existing contracts with no initial minimum term must move to rolling renewal terms of no greater than 31 calendar days after a maximum of 18 months).

Annex 1
Cost benefit analysis

Introduction

1.1 In this annex, we estimate the likely costs and benefits of our remedies.

1.2 Our analysis is based largely upon responses from acquirers, payment facilitators, ISOs and terminal leasing/financing companies to a formal information request we sent in March 2022. We also considered feedback on the cost benefit analysis we published as part of our provisional decision.

1.3 We also considered the findings of our card-acquiring market review and evidence from comparable interventions in other sectors.

1.4 The structure of this annex is:

- Approach to modelling costs and benefits
- The costs and effectiveness of each remedy individually
- The costs and benefits of our package of remedies
- Conclusions

Approach to modelling costs and benefits

1.5 We have focused our assessment on the likely net impact of the remedies on merchants. As set out below, this includes estimating the cost to providers of implementing the remedies and the benefits that merchants will subsequently attain – for example, from lower prices/fees for card-acquiring services. Merchants may benefit in other ways, from improved competition, that we have not tried to quantify.[15]

15 For instance, improved competition may result in longer-term improvements in innovation, efficiency and allocation of resources.

Costs

1.6 The key costs for the purpose of our assessment are those that will be directly incurred by providers because of the directions (and which may be passed on to merchants[16]). By contrast:

- We expect that indirect costs, such as needing to employ more sales representatives to deal with higher levels of customer switching and renegotiating[17] or due to distortions in competition[18], will be relatively limited.[19]
- To the extent that merchants receive lower prices (or equivalent improvements in service quality), providers may earn lower profits in aggregate. However, the interventions are intended to result in merchants getting better deals on card-acquiring services so we have not treated lower provider profits as a relevant cost for the purposes of our assessment. Indeed, we consider that reducing provider profits in aggregate will likely promote broader economic efficiency.

1.7 We requested information from 20 providers. These included 12 of the 14 directed acquirers and payment facilitators, five of the largest ISOs and three terminal rental/financing companies. Their responses, and feedback on the cost benefit analysis published as part of our provisional decision, informed our estimates of the total costs of our remedies both individually and as a package.

1.8 Some respondents said they needed more detail to provide accurate cost estimates. In response, the specification of the remedies package has developed from the initial remedies consultation to the provisional decision and now the final decision. We therefore appreciate that some cost estimates received through this process may only be indicative. We have, however, increased some of our cost estimates in response to feedback to the provisional decision. We also expect that the actual implementation costs of the remedy package could be lower than we have estimated because:

- The remedies package set out in the final directions is, in general, less burdensome than some respondents assumed in their cost estimates. We were not always able to control for this by, for instance, removing cost elements that we considered would not likely be incurred by providers.

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16 We found some evidence that acquirers may have passed through higher scheme fees to merchants - see PSR MR18/1.8, *Market review into the supply of card-acquiring services: Final report* (November 2021, page 85, paragraph 5.66. In response to the provisional decision, one stakeholder stated that costs incurred in developing and maintaining the remedies will ultimately be bourne by merchants.

17 For instance, providers gave estimates of how long it takes to sign up a merchant by telephone. These responses indicated that signing up simpler/smaller merchants can take around 20 minutes by telephone. One provider stated that merchants increasingly sign up online (and another stated that it did not sign up merchants by telephone at all). Some providers indicated that sign-up could take longer (for example, phone calls up to 60 minutes or face-to-face consultations of 60 to 90 minutes) but this appeared more likely to relate to larger merchants with more complex requirements.

18 For instance, see paragraph 1.30.

19 More searching, switching and renegotiating behaviour could also exert a cost on merchants themselves in terms of the time required to undertake these activities. This was also noted as a potential unintended consequence by one stakeholder in response to the provisional decision. We anticipate, however, that merchants are likely to incur the costs of switching and renegotiating only to the extent that their search activity (which the remedies will make easier) demonstrates that the likely benefits from doing so will exceed the costs.

- We estimated the costs of implementation for each remedy individually, but it is likely there will be some cost synergies. For instance, adapting billing statements to include both the summary box and trigger message may be part of the same exercise.
- We understand that some of the directed providers supply processing services to other directed providers.[20] Therefore, while we allocated a firm-level cost to each of the directed providers, in some cases one firm may incur an implementation cost that at least partly covers the implementation costs of other providers too.

1.9 Following publication of the provisional decision, one provider wanted to engage further with us on costs and benefits and another recommended testing and trialling the remedies to understand costs and benefits better.

1.10 As explained in the final decision, we have engaged extensively with external stakeholders on remedies, including via two consultations, a roundtable and bilateral discussions. We have also conducted market testing in two fieldwork research exercises. We have subsequently concluded that the remedies package, as specified in the directions, is the most appropriate and that it will have a net-positive benefit for merchants (and ultimately, consumers). Their effectiveness may be assessed as part of future monitoring and evaluation activity and we may subsequently make changes where appropriate.

1.11 Some stakeholders indicated that it will be burdensome for the directed providers to ensure that third parties comply with the remedies. One also noted the potential for unintended consequences if a directed party exits a contract with a non-compliant third party.

1.12 In response, as explained in the final decision, we are considering how to develop a framework to evaluate outcomes and could use this to implement a proportionate means to monitor compliance. At this stage, however, we consider it likely that regulated PSPs will be able to manage such compliance largely via contractual requirements, which are unlikely to represent a material additional cost. With respect to unintended consequences, we disagree that it is appropriate to include material costs that arise only by assuming there will be substantial non-compliance, given that third parties will likely face incentives to comply to protect their relationship (whether direct or indirect) with the directed provider.

Benefits

1.13 Estimating the precise value of the benefits of our remedies is difficult because it relies on, among other things, the extent to which they will result in changes to merchant and provider behaviour.

20 For instance, see https://www.aibms.com/businesses/corporate/

1.14 The greatest gains are likely to accrue to merchants who switch to alternative providers or negotiate better deals with their existing providers, as a direct consequence of our remedies. We have therefore estimated the likely value to merchants of increasing rates of switching and renegotiation and the extent to which these would need to increase to offset implementation costs.[21]

1.15 Each intervention will individually have some beneficial impact. However, the remedies are complementary so their combined impact will likely be greater than the sum of their parts. For instance, prompting a merchant to consider their supply options may have a greater benefit if that merchant is able to effectively compare alternative offers and if the merchant would not be dissuaded from switching by significant cancellation fees relating to its existing POS terminal contract. We report evidence on the effectiveness of specific measures (such as those from other sectors where similar types of measures are in place) and the increases in switching and renegotiating that would be needed to offset the implementation costs of both the individual remedies and the overall package.

1.16 Several stakeholders commented upon our decision to apply the remedies to specific providers rather than the whole sector. Submissions included that it would disadvantage the directed providers, create an unlevel playing field and distort the market (for instance, it was argued that ISOs may switch to non-directed parties to avoid implementing them). Some stakeholders stated that our remedies may also be less effective because they will only apply to some providers; other providers would choose not to apply them and, to the extent that the remedies encourage switching, this will only be away from directed providers. The merchant customers of non-regulated providers would likely include SMEs, micro enterprises and new entrepreneurs who are inexperienced and would benefit from the remedies.

1.17 As explained in the final decision, we consider that these specific directions are the most effective and proportionate way to protect merchants. The providers subject to the directions account for around 95% of retailer transactions. To the extent that the directions enhance competition and result in better deals for card-acquiring services being available, they could also benefit merchants not directly benefitting from the impact of the directions.[22] Costs will also not be imposed on a large number of smaller acquirers and payment facilitators. Nevertheless, we acknowledge the risks identified by respondents and, as already noted, we may assess the effectiveness of the remedies package as part of future monitoring and evaluation activity, and may subsequently make changes where appropriate.

21 The remedies could also lead to greater competitive pressure. We have therefore estimated the average price fall across all merchants that would likely offset implementation costs.

22 We also consider it possible that some providers will voluntarily implement at least some of the measures. For instance, some may voluntarily publish online quotation tools if they would otherwise be disadvantaged relative to directed providers and their ISO partners when customers shop around. Some may also choose to provide summary boxes and limit the length of POS terminal contracts to the extent that merchant expectations around pricing transparency and contract terms change. We have not attempted to quantify the potential additional benefits associated with merchant customers not directly benefitting from the impact of the directions.

Other methodological issues

1.18 Our baseline is that, without our intervention, merchant and provider behaviour and prices would remain largely unchanged.[23]

1.19 Our assessment of existing merchant behaviour is based on evidence presented in the final report of our market review. This includes data from 2019 and earlier. However, more recent evidence demonstrates that the problems we identified then remain today, for instance:

- The UK Merchant Acceptance Council (H2 2021) merchant survey indicates that annual switching rates remain low.[24]
- BritainThinks SMEs Payment Research,[25] based on merchant research undertaken late in 2021, shows that newer SMEs actively shop around but there is a sense that other merchants do not know where to start to get a better deal. It found that some SMEs:
    1. feel there is a lack of transparency, finding the different rates and types of fees confusing. Some shop around but others do not know where to start and some SMEs report being locked into relatively long contracts
    2. are very positive about tools and support to help them understand or compare fees in relation to card-acquiring services

1.20 Our evidence on the value of fees paid by merchants and numbers of merchant customers in previous years are drawn from both data collected for the market review and more recent data collected from providers during our remedies consultation.

1.21 In calculating the net present value (NPV) of our costs and benefits we have:

- Assumed an annual discount rate of 3.5%, in line with The Green Book.[26]
- Assessed the costs and benefits of our remedies over a five-year period, in line with the length of the directions. This is a cautious approach, given that:
    1. the Green Book describes a period of ten years as a suitable working assumption for many interventions

23 That is, aside from pre-existing trends that would impact behaviour or prices in the absence of the remedies. In the section discussing the 18-month POS terminal contract remedy, we specifically test whether there are any significant trends for merchants to increasingly use card readers in place of POS terminals (see paragraph 1.110).

24 For instance, only 9% of the surveyed card-accepting merchants had switched 'offline' services in the last 12 months and 13% had switched 'online' services.

25 We commissioned BritainThinks to carry out research with SMEs in 2021, including with respect to their views on card payments and on interventions to help them get a good deal. This research included focus groups with 44 SMEs and an online survey of 1,038 micro, small and medium businesses with 0-249 employees across the UK.

26 *The Green Book: Central Government Guidance on Appraisal and Evaluation*, HM Treasury (2022).

2. most implementation costs are incurred at the beginning of the period, while benefits to merchants will likely continue to accrue beyond the end of the period

1.22 We also considered whether, in response to our remedies, directed providers might make changes (such as to their pricing structures) that could reduce the value of benefits. For instance, to reduce the gains from switching/renegotiating and/or to raise prices for merchants who do not switch or renegotiate. We note, however, that such 'waterbed' effects (where benefits of greater regulation or competition are, at least partially, offset by increases in prices elsewhere) are generally less likely to arise when competition is not working well, as we concluded in the final report of the card-acquiring market review. We have therefore not incorporated waterbed effects in our analysis. However, we do not consider that our conclusions would be significantly impacted even if moderate waterbed effects were assumed.[27]

Summary box and online quotation tool

The problem and rationale for intervention

1.23 It can be difficult for merchants to compare different providers' offers. This is due to a lack of published information and because pricing structures and approaches to headline rates vary significantly. These features adversely impact merchants' willingness and ability to search, switch or renegotiate.

1.24 We are requiring the directed acquirers and payment facilitators to provide their merchant customers with summary boxes containing tailored information on pricing, service levels and consumption data (we have published the specification that directed providers need to implement on our website[28]). These providers, together with their sales channel partners (ISOs),[29] will also be required to host an online quotation tool on their respective websites.

1.25 These measures will have a beneficial impact on merchant searching, switching and negotiating behaviour, for instance:

- The summary box will increase merchants' understanding and awareness of the fees they currently face (and of any changes/increases to those fees over time). As such, it is more likely they will search for a new deal if their current one is not optimal or changes.
- The summary box and online quotation tool will both help merchants to make comparisons of alternative offers more easily.

27 For instance, the FCA has previously assumed that moderate waterbed effects could reduce the benefits of an intervention by around 25%. See FCA, *Cash Savings Remedies* (July 2015), page 62, paragraph 30.

28 www.psr.org.uk/publications/general/camr-implementation-advice

29 We consider it necessary to include all partnering ISOs rather than, for instance, to specify a size threshold. This is to avoid distorting incentives for providers to partner with smaller ISOs or for ISOs themselves to remain below the size threshold.

1.26 They should consequently lead to the benefits set out in paragraphs 1.5 and 1.6 of the final decision.

Costs of the summary box

1.27 We asked 12 acquirers and payment facilitators whether they already provide bespoke summary boxes (or something similar) to their merchant customers. Ten indicated that they do not. Of those, five acquirers noted that they supply more detailed pricing or service/transaction information.[30] Two payment facilitators stated that they already publish details of their pricing structures online, although we note that some of their larger customers may pay different fees. Overall, these responses confirm that the directed providers will likely need to incur costs to implement this remedy.

1.28 The Direction requires the directed providers to incorporate the summary box into existing billing information. To help understand how providers would do this, we asked the same acquirers and payment facilitators how they currently send billing statements to their merchant customers. Almost all provide billing information via an online account to at least some of their customers and over half send letters to some customers. Relatively few send billing information by email or SMS. The responses also suggested that most of their merchant customers receive billing information via one medium, but at least two providers communicate it via two mediums (for example, email and online account).

1.29 In response to our March 2022 information request, providers gave their views on the major types of cost they would face implementing this type of remedy. We received further views in response to the provisional decision. Based on stakeholder responses, we consider the main categories of costs to be:

- making changes to IT systems, so that merchant data can be extracted and processed into the form required for the summary box
- incorporating the summary box into existing billing information (via the merchant's online account and monthly billing information)

1.30 Additional cost categories were raised that we either consider irrelevant to the final remedy specification or unlikely to constitute significant costs:

- **Distorting competition by focusing attention on price and, for instance, reducing the incentive for providers to provide better service:** Similar comments were made in relation to the online quotation tool. We consider the risks of such unintended consequences are limited because:

    1. Price is a key factor for merchants when shopping around and choosing provider[31]
    2. The summary box includes key non-price information on settlement times and the payment brands accepted

30 For instance, at the application stage, in monthly statements or via online dashboards.

31 See MR18/1.8, Market review into the supply of card-acquiring services: Final report (November 2021), page 58, paragraph 4.78.

- **Communication costs when the summary box is rolled out**: The summary box is clear and self-explanatory and we do not anticipate that providers will need to commit significant resources to explaining it to their merchant customers. To the extent that more merchants switch or renegotiate, additional onboarding costs incurred by providers are likely to be small, relative to the gains from switching.[32]

- **Sending the summary box to merchants as a separate communication**: The Direction only requires the summary box to be included within existing billing information (including online dashboards).

- **Capturing and storing data that the provider does not already have:** Providers will be required to only include information they would have access to.[33]

- **Maintaining up-to-date and accurate fee information, particularly with regard to card scheme fees**: We anticipate that the summary box information will be updated with the same frequency as billing data that providers already supply. As such, any incremental cost associated with updating the summary box is unlikely to be material.

- **Creating different summary boxes for each of blended pricing, IC+ pricing and IC++ pricing.** We believe that, for most providers, they will have a single IT system that deals with all types of pricing.

- **Developing a process to automatically detect in-scope merchants.** We note that relatively few merchant customers by number (around 0.1%) have an annual card turnover above £50 million. It is not clear that identifying this small subset of customers would be burdensome, and we note that providers are able to provide the summary box to all their merchant customers if that is more practical.[34]

1.31 In addition, and as discussed above, some stakeholders raised the burden of ensuring third party compliance with the directions (see paragraphs 1.11 and 1.12) and some stated that providers may subsequently increase less visible fees (see paragraph 1.47).

32 For instance, see footnote 3 and paragraph 1.128.

33 For instance, they do not need to include information on the potential savings to the merchant from switching, which was identified as possible content for the summary box in the first remedies consultation.

34 We note that this point, and our response, also applies to the other remedy options.

1.32 In our March 2022 information request, we asked providers to estimate the magnitude of costs they would be likely to face if they implement a summary box remedy:

- Around half of the 12 providers that we requested information from stated that estimating the cost of implementation was difficult or not possible due to, for instance, being dependent on the exact specification of the summary box. Nevertheless, we received nine submissions containing information or views on costs. These were to varying levels of detail, with only two providers supplying cost-breakdowns into multiple types of activity. Some estimates were relatively broad (for example, three providers described costs as 'millions'[35]) or did not include numerical estimates (for example, two providers noted that there would be ongoing costs but did not estimate them[36]) so in some cases we needed to make assumptions over the likely costings.[37]
- In three cases, some cost information was provided that we considered would not apply[38] and those costs were not included (or only partially) in our calculations.

1.33 In response to feedback received to the provisional decision we decided to increase the upper bound of one-off and recurring annual costs from £2 million to £3 million. One party also stated that it had not assessed the requirement to source external data from third party organisations; however, as set out in our implementation advice[39], this is not a requirement and we therefore did not change the cost estimate attributed to that stakeholder.

1.34 Across providers, firm-level cost estimates varied widely and we show a summary of these in Figure 1. Larger acquirers generally estimated significantly higher costs compared to smaller acquirers and payment facilitators.[40]

Figure 1: Ranges of costs indicated, per firm, split by type

	One-off costs	Annual recurring costs
Large acquirers	£200k to £3 million	Not material to £3 million
Other acquirers	Not material to £67,500	Not material to £150,000
Payment facilitators	Not material	£80,000

35 We used a figure of £2 million in two of these cases but not for the third, as indicated in paragraph 1.33.

36 One acquirer estimated that its ongoing recurring costs would constitute 50% of the upfront costs. Therefore, we applied this same assumption to two acquirers that referred to ongoing costs but did not indicate their likely magnitude.

37 For instance, when a provider gave a range, we included the full range to derive the minimum and maximum metrics shown in this annex. We took the mid-point of the individual firm's range in order to calculate the median, mean and upper quartile.

38 Such as the cost of sending the summary box in a separate communication by letter.

39 www.psr.org.uk/publications/general/camr-implementation-advice

40 We understand that one reason for such significant variation in cost estimates might be attributed to differences in the typical IT systems of different types of firm.

1.35 To supplement the evidence from providers, we also reviewed precedent on summary box interventions in other sectors. Some cost estimates from precedent were lower. There were some examples where the costs of redesigning summary information were estimated to be around £20,000 per firm.[41] Although in another example, one-off costs were estimated at £1 million per provider.[42]

1.36 Using the firm-level estimates we received in this case, for each type of provider shown in Figure 1, we identified the: minimum, median, mean, upper-quartile and maximum estimates for the firm-level, one-off and recurring costs.[43]

1.37 We used those figures and applied them to the 14 directed providers to estimate aggregate one-off and recurring costs:

- The total one-off costs incurred by the 14 directed providers range from a minimum of £1 million to a maximum of around £15 million. The average and median cost estimates are circa £8 million and £9 million respectively. The upper-quartile estimate is around £12 million.
- Total annual recurring costs range from a minimum of £240,000 per annum to a maximum of around £16 million per annum. The average and median cost estimates are circa £6 million and £5 million respectively. The upper-quartile estimate is around £8 million.

1.38 Over the five-year time horizon, applying an annual discount of 3.5%, the NPV of the costs to the 14 directed providers overall would be around £30 million and £39 million based on median and average cost estimates, respectively. Based on the upper-quartile estimates for each type of provider, it would be around £50 million.

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41 For instance:

- The FCA estimated an average one-off cost of £20,800 for providers of packaged retail and insurance-based investment information to make changes to a three-page standardised key information document to, among other things, remove misleading performance scenario information. The costs included: familiarisation and legal, IT costs and change and governance. Source: FCA, *PRIIPs – Proposed scope rules and amendments to Regulatory Technical Standards* (July 2021).
- The FCA estimated an average cost of £22,000 for firms to redesign a summary box of key information on cash savings products, updating sales processes and providing training. Source: FCA, *Cash Savings Remedies* (July 2015), page 62, paragraph 35.
- The FSA assessed the likely costs of making changes to initial disclosure documentation in its Mortgage Market Review. Costs were £1,500 to £1,700 per firm to develop alternative disclosure documents, and compliance costs of £1.7 million across the sector, including making changes to KFI requirements. Source: FSA, *Mortgage Market Review* (November 2010), page 48, paragraph 43.

42 The FSA noted substantial one-off costs of £1 million per Life provider to redesign disclosure material and to programme systems. Source: FSA, *FSA consultation paper - Informing consumers: product disclosure at the point of sale. FSA* (2003), page 93, paragraph 7.33.

43 For instance, the average firm-level one-off costs were estimated to be £1.6 million for the largest acquirers but around £30,000 for other acquirers and minimal for payment facilitators. Average recurring costs were estimated to be around £1.2 million per annum for the largest acquirers and around £60,000 and £80,000 per annum respectively for other acquirers and payment facilitators.

Costs of an online quotation tool

1.39 We are requiring that the directed providers (and the ISOs that they contract with) provide an online quotation tool that will allow merchants to enter information about themselves and their requirements to receive price and non-price information.

1.40 We requested information from a range of acquirers, payment facilitators and ISOs on whether they already publish generic summary information on their website and the potential costs of doing so. Some of the information they provided is relevant to our assessment of costs of the online quotation tool and we summarise this below:

- Around half of the providers did not already publish generic summary information. Reasons given included the complexity of pricing and that, due to variation in fees charged across merchants, any published headline rate would not be representative of the rate subsequently charged to an individual merchant.
- Of those providers that stated that they did already publish generic summary information on their websites:
    1. Payment facilitators publish some generic pricing information. One advised that it may be necessary to include more information than was indicated in the initial remedies consultation, to give merchants a meaningful comparison.
    2. Some ISOs and acquirers show pricing for certain packages – generally those stated to be suitable for smaller merchants (such as turnover below a few hundred thousand pounds). One provider stated that, for larger merchants, tariffs are individually negotiated and therefore any generic pricing published would not reflect the tariffs actually paid. Another stated that simplified pricing is not suitable for the majority of its customers, for which consultation is a key part of the sales process. That same provider argued that the risk of providing generic summary information would be that significant costs would not be included, or they could be increased.
- Most providers agreed that a major cost of publishing generic summary information would relate to updating their website. Various other costs were identified as also being significant. For example, some highlighted the indirect cost of having to change their pricing strategies. One provider stated this would be a material investment because, for larger merchants, fees currently depend on merchant characteristics, so significant amendment and simplification would be needed to adopt a different approach. Another stated that providers may need to increase their prices to account for the risks inherent in offering overly simplistic pricing.[44]

44 Other costs mentioned included: costs to automate the display of pricing information, collating information on non-price metrics, increased advertising spend to ensure visibility and legal costs to check their contracts with acquirers.

- We received two cost estimates that were relevant to the cost of implementing an online quotation tool, specifically:

  1. One acquirer estimated an upfront cost of £45,000 with recurring costs of £25,000 to implement a solution allowing merchants to enter a wide range of parameters to generate tailored pricing based on their specific requirements.[45]

  2. An ISO estimated £40,000 to develop a 'smart' generic summary box to capture critical data and an extra £10,000 to link it to the website.

1.41 We note that the online quotation tool addresses some of the issues identified by respondents regarding generic summary information. In particular, the online quotation tool should allow prices to be tailored to merchant characteristics and requirements.

1.42 The cost estimates shown in paragraph 1.40 also indicate that the costs of implementing the quotation tool will likely be significantly lower than for the summary box. This is consistent with its implementation being principally a development of a web-based analytics tool, rather than a change to providers' underlying IT systems. Some providers' sales staff will already utilise similar tools to provide prospective merchant customers with quotes.

1.43 In response to the provisional decision, stakeholder comments relating to the costs of the online quotation tool were:

- **ISOs may need to produce different online quotation tools for different acquirers, and they face ongoing expenses in terms of updating the pricing information.** To account for potential ongoing costs, we have updated the cost assumptions used in our provisional decision by including a recurring cost of £2,500 for smaller ISOs (which is 50% of the assumed one-off cost for a small ISO). It was not clear, however, that it would be appropriate to assume additional costs for an ISO to host multiple online quotation tools if they work with multiple acquirers. This is because the information received from our March 2022 information request suggests that ISOs do not typically provide the merchant with a choice of acquirer. As such, it is unclear why they would host multiple online quotation tools (opposed to including functionality within a single tool to show the merchant the appropriate fees).

- **It could be burdensome for directed providers to ensure that ISOs comply with the remedy.** We discuss and respond to this issue in paragraphs 1.11 and 1.12.

- **Other comments indicated that the costs of implementing the online quotation tool remedy could be significant.** We received several relatively high-level comments from stakeholders that did not include cost estimates.[46] In response, we note that we have increased our cost estimate for this remedy since the provisional decision. Also, even if total industry implementation costs were

45 They noted that these costs could double if the summary box needed to show 'all' relevant price/cost points.

46 One stakeholder described the online quotation tool remedy as 'challenging' to implement and another expressed 'concern' with the cost of creating and maintaining it. Another observed that it would necessitate more resources from PSPs compared to the DCT remedy option.

significantly higher (for example, double those estimated in paragraph 1.44) our conclusions would not be significantly impacted.

1.44 Based on the cost estimate information shown in paragraph 1.40 and feedback to the provisional decision in paragraph 1.43, we have conservatively estimated that the 14 directed providers and their largest ISOs[47] will each incur upfront costs of around £50,000, with £25,000 recurring annual costs. We have assumed that smaller ISOs will tend to have simpler pricing models and will each incur a one-off cost of around £5,000 and recurring costs of around £2,500 per year.[48] Based on these cost estimates, the total upfront costs incurred by providers are estimated to be around £2 million, with recurring annual costs of circa £1 million. The NPV of these costs over the five-year period is estimated to be in the region of £6 million.

Effectiveness of the summary box and online quotation tool

1.45 We asked providers for evidence about the likely effectiveness of summary boxes at increasing merchant engagement. We did not specifically request evidence on the effectiveness of online quotation tools in our March 2022 information request (though a majority gave reasons why generic summary information would be ineffective and potentially harmful). Some providers submitted views on the effectiveness of these remedies in response to the provisional decision.

1.46 Several agreed that summary boxes could help merchants compare providers, although others felt that only some would benefit (for example, those already facing simple pricing). One emphasised the importance of including non-price factors. Only one provider referred to evidence in support of the summary box remedy, which was to note that pricing communications generally lead to a significant increase in calls from its merchants.

1.47 Other respondents indicated that the summary box and online quotation tool could be ineffective or potentially harmful, for the following reasons:

- **One provider stated that its customers already receive transparent pricing so the summary box would be of limited additional benefit.** We consider that merchants will benefit by being able to compare offerings effectively when information is presented in a comparable way. Providers that already provide the information to their merchant customers may also be expected to face relatively lower implementation costs, insofar that they may only need to reformat existing information.

47 ISOs that the directed acquirers contract with that are estimated to have over 5,000 UK merchant customers. Data collected from 21 acquirers as part of the market review indicated that at least 10 ISOs were operating at this level, and on a cautious basis we have assumed that 15 ISOs now operate at this level.

48 In our market review, we previously estimated that there were over 60 ISOs operating in the UK in 2018. We note that the Visa Global Register lists around 200 ISOs (those classified as HR-ISO and ISO-M) that operate in Europe and are based in the UK. We have taken the average of these two figures to assume that the directed acquirers partner with 130 ISOs.

- **Important costs are not included, and those could increase.** We acknowledge the risk that providers could offer low headline prices but increase fees and charges not included within the summary box or online quotation tool. However, these tools will contain the information that is typically most important for comparing providers, in a comparable format. They will therefore substantially improve the current situation where, for instance, there is typically relatively little pricing transparency.
- **Pricing information given by the online quotation tool will only be indicative (and likely higher than the prices subsequently offered).** We note that while online quotations may sometimes be indicative, a merchant's summary box and online quotation tools will together help them to compare providers on the most important transaction types and charges, as well as key non-price information. After using these tools to compare offers, we expect merchants will subsequently be provided with more detail upon which to base their final decision.
- **Merchants would have to input a significant amount of information to receive a quote.** We consider that the information required to receive a useful indicative quote is likely to be limited. The time required to input that information is therefore likely to be significantly less than that typically spent engaging with a salesperson on the telephone to get a quote.
- **Merchants might view the information as a comparison of Visa and Mastercard fees, rather than between acquirers, potentially disincentivising them to shop around if they assume fees do not vary between acquirers.** We disagree that merchants are likely to misunderstand that the summary box and online quotation tools can be used to compare providers of card-acquiring services. The explanation shown alongside the summary box and the content of the trigger message will make this clear.
- **The summary box will not provide the right level of detail[49] and the online quotation tool will not be relevant to ISOs that have bundled pricing.** We acknowledge that there is a trade-off between providing more information and ease of comparison. Different specifications may also reflect existing pricing models better than others. We have, however, engaged with industry to develop these specifications and consider that they provide the appropriate level of detail and format to provide the greatest benefit to merchants.
- **A summary box at the front of an invoice may be confusing and will create a longer invoice document.** The text shown alongside the summary box will clearly explain its purpose. We consider that the benefits of highlighting key summary information will likely be much larger than any cost associated with a longer invoice document.

49 One merchant told us that it is not possible to convey the complexities of pricing in a simplified or standardised summary box. Another noted that important costs are not included, and those fees could increase. One stakeholder indicated that it should show the overall cost of acceptance, rather than multiple price points.

- **These remedies will be disproportionate and unhelpful for larger merchants.**[50] In response, our market review found that the supply of card-acquiring services is not working well for merchants with annual card turnovers of up to £50 million. We consider it appropriate, therefore, to remedy features of concern for merchants with card turnovers up to this level.[51] We disagree that, on average, larger merchants are likely to be adversely impacted by greater pricing transparency.

- **Providers may change their approach to pricing in response to the online quotation tool – for example, including taking a simpler approach. Increased variation of pricing models will impact merchants' ability to compare prices.** We consider that the summary box and online quotation tool will create incentives for suppliers to develop and offer better deals for merchants through competitive pressure as merchants become more engaged and shop around more actively with better information. We disagree that changes to provider pricing will, in aggregate, adversely impact merchants.

- **Few merchants are onboarded via an online sales channel.** We do not consider that the proportion of merchants onboarded via online sales channels necessarily indicates that merchants will not utilise online channels to search for alternative offers.

1.48 In addition to our responses above, we acknowledge that evidence on the effectiveness of these tools, once implemented, could also potentially lead us to make changes to the directions.

1.49 There is relatively little evidence from other sectors relating to the effectiveness of summary box and online quotation tool remedies. The available evidence indicates mixed experiences of such remedies, including instances where effectiveness has been limited (but also an instance where switching rates increased markedly):

- The FCA and CMA[52] have previously found that the effectiveness of disclosure remedies is mixed, with some improving consumer engagement but others being ineffective. An example that did improve consumer engagement was the FCA's requirement for general insurers to include the previous year's premium on renewal letters, which led to 11-18% more customer switching (an increase of 3.2 percentage points).[53]

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50 Some stakeholders told us that large merchants may not require or use the online quotation tool because they negotiate and/or have bespoke pricing. One provider also stated that providers may also need to quote larger merchants a higher price initially because they would not have enough detail to provide a bespoke price. One stakeholder stated that the online tool may result in larger merchants being less likely to purchase integrated offerings that are more suited to their needs.

51 For the 18-month POS terminal supply contract remedy, this applies only to merchants with annual card turnovers of below £10 million because larger merchants are more likely to source card acceptance products independently.

52 FCA/CMA, *Helping People Get a Better Deal: Learning lessons about consumer facing remedies* (October 2018), page 19.

53 Among customers that had experienced a price rise of 5%. Source: FCA, *Encouraging Consumers to act at renewal* (December 2015), page 5.

- Separately, the FSA previously concluded that initial disclosure document and key facts illustrations for mortgages had not performed as expected, despite efforts for them to provide clear and concise information.[54]

- Ofgem assessed the effectiveness of a remedy to require suppliers to provide clear prices to microbusiness customers through a quotation tool.[55] It found that it had improved the level of price information available but only a small proportion of customers used the tools.[56] Some aspects of the remedy did not work as well as they could. For instance, the tariff information provided could be difficult to interpret, implementation was not consistent, and awareness of the quotation tools was low.

- Some assessments of interventions to provide key information to customers have found that the costs of implementation would be offset by relatively small benefits.[57]

1.50 We believe that, in this case, the summary box and quotation tool together are likely to benefit a significant proportion of merchants. For instance:

- 49% of SMEs reported that pricing transparency, and 41% of SMEs reported that consistency, would be the most helpful measures for their business to get a good deal on card-acquiring services.[58]

- Our card-acquiring market review reported that 16% of the merchants that had switched provider stated that access to more comparable pricing information, better quality or more accessible information would have made them feel more confident about deciding which provider to switch to.

- With regard to some of the aspects of the quotation tool remedy that Ofgem assessed to not be working well, in this case,

  1. The fees shown within the online quotation tool include the main transaction types and charges – so they will therefore typically be relevant to merchants and not difficult to interpret.

  2. Awareness of the online quotation tools among merchants will be high; they will be pointed towards the tools in the trigger message (discussed in the next section).

54 FCA, *Mortgage Market Review: Responsible Lending* (July 2010).

55 Ofgem, *Evaluation of CMA Price Transparency Remedy – Final Report* (2019), page 5.

56 For instance, less than 1% of some suppliers' microbusiness customers.

57 For instance, the FCA found that the costs for providers of Retail and Insurance based Investment Products providers to prepare and provide investors with a standardised three-page key information document would be offset with an average saving of £8.50 per merchant. Source: FCA, *PRIIPs – Proposed scope rules and amendments to Regulatory Technical Standards* (July 2021), annex 1, paragraph 30.

58 Respondents to the BritainThinks SMEs Payment Research online questionnaire were asked 'In order to accept card payments, businesses use card-acquiring services. Research suggests that businesses who do not shop around for these card-acquiring services might not always get a good deal on the fees they pay. Which of the following would be most helpful for your business to get a good deal on its card-acquiring services?' Base: SMEs accepting card payments (n=461)

1.51 On the basis that the combined NPV of the implementation costs of the summary box and online quotation tool are around £37 million to £45 million (or £57 million based on providers' higher cost estimates), the implementation costs of these two remedies are likely to be offset by the benefits to merchants commensurate with an increase in switching and renegotiating of around 0.9 to 1.1 percentage points (or around 1.4 percentage points in the case of providers' higher cost estimates).[59] An average price fall of less than 0.5% would also outweigh the estimated costs of implementation.

Trigger messages

The problem and rationale for intervention

1.52 Some merchants do not consider, or are not aware of, the potential benefits of switching or renegotiating with their current provider. This is partially because card-acquiring service contracts can roll on indefinitely without any prompt for them to consider their supply options.

1.53 The longer a merchant has been on its current deal, the greater the likelihood that it would benefit from comparing different offers. For instance, as merchant circumstances change over time (for example, their annual card turnover changes) it becomes more likely that alternative deals exist that fit their current requirements better.

1.54 We are requiring that the directed providers prompt their merchant customers with a message to inform them that they can talk to their current provider or switch and that doing so could save them money.

1.55 This remedy is intended to increase levels of merchant engagement, so that a higher proportion of merchants search providers and consequently either switch or renegotiate to get a better deal on their card-acquiring services. This could, in turn, incentivise providers to offer better deals to win and retain merchant customers.

Costs of trigger messages

1.56 We asked a range of acquirers and payment facilitators whether they already provide trigger messages (or something similar) to their merchant customers. None of the 12 respondents indicated that they were currently providing a trigger message in the manner described in our initial remedies consultation. Some providers did, however, give examples of how they keep in contact with their customers on a regular basis, including quarterly reviews and conversations with relationship managers.

1.57 We consider that the main costs that providers would face implementing this remedy would relate to adapting existing billing information to incorporate the trigger message and extracting and including merchant-specific information on contract end/renewal dates.

59 We do not consider that any potential costs associated with the additional cost categories listed in paragraph 1.30 and 1.43 would have a material impact on this assessment.

1.58 Additional cost categories that have been raised that we consider unlikely to amount to significant costs:[60]

- **Unintended consequences:** Some providers noted a risk that focusing on price factors could result in a 'race to the bottom' at the expense of non-price factors. We have consulted on the trigger message and, in the final specification, merchants are advised that they may wish to speak with their current provider and it refers to both saving money or finding a deal better suited to their needs. Merchants will also be directed to their summary box and online calculators, where both price and non-price information will be shown. We therefore disagree that the trigger message is likely to lead to a worse competitive outcome compared to the current situation.
- **Administrative costs in managing the development and deployment of the trigger messages:** We believe these are likely to be modest given the nature of the message. One provider also flagged various processes that the Direction does not mandate, such as confirming the merchant's preferred contact method and identifying specific individuals within the merchant organisation to receive the information. Providers will be able to use the same communication channel(s) that are usually used and existing point(s) of contact.
- **Customer service costs:** One provider stated it may need to employ additional customer service representatives to engage with merchants after the triggers are sent. The trigger message is clear and self-explanatory, so we consider that additional customer services costs are instead likely to relate to greater searching, switching and renegotiating activity (see paragraph 1.6).

1.59 Some providers noted that further information on the format and content of the trigger message was required to provide an accurate cost estimate. Nevertheless, in response to our March 2022 information request, six providers submitted cost estimates based on their assumptions over the specification of the trigger message.

1.60 Some estimates were relatively broad (for example, two providers described costs either as 'material'[61] or 'not material'. Three gave costs that we did not consider relevant, such as those associated with additional printing and mailing). In some cases, we therefore needed to make assumptions over likely costings or to exclude some costs from our calculations.

1.61 In response to the provisional decision, three providers expressed concern with the cost of the trigger message remedy but gave no additional cost information. One noted that they may need to redesign their merchant statements to accommodate the trigger message. In this regard, we note that the trigger message is relatively concise compared to the summary box so the incremental costs of redesigning merchant statements attributable to the trigger message are likely to be modest for most providers. Another provider stated they may need to develop a process to detect in-scope merchants (discussed in paragraph 1.30). We did not consider, based on these responses, that it was necessary to change the cost estimates for implementing the trigger message remedy that we published in our provisional decision. We note,

60 We discussed the stakeholder view of the costs of detecting in-scope merchants in paragraph 1.30.

61 Which we assumed was £100,000.

however, that our cost estimates are based on a range of information and our conclusions would be unlikely to be significantly impacted if, for instance, implementation costs were reflected by the more cautious upper-quartile estimates.

1.62 The firm-level estimates varied widely, with larger providers typically providing higher cost figures than smaller providers.

Figure 2: Ranges of costs indicated, per firm, split by type

	One-off costs	Recurring costs
Large acquirers	£195,000 to £1.2 million	Not material to £150,000
Other acquirers	Not material to £450,000	Not material to £67,500
Payment facilitators	Not material	£80,000

1.63 We reviewed a range of precedent on trigger interventions in other sectors. Some examples of implementation costs were consistent with upfront firm-level direct costs of around £350,000 to £400,000 to, for instance, implement system changes.[62]

1.64 Based on our analysis of firm-level cost estimates, for each type of provider, we identified the: minimum, median, mean, upper-quartile and maximum estimates for the one-off and recurring costs.[63] Using those firm-level figures and applying them to the 14 directed providers, we estimated the total one-off and annual recurring costs as follows:

- The total one-off costs incurred by the 14 directed providers range from a minimum of around £1 million to a maximum of circa £9 million. The average and median cost estimates are in the region of £4 million and £2 million respectively. The upper-quartile estimate is around £6 million.
- Total industry annual recurring costs range from a minimum of £240,000 to a maximum of circa £1 million. The average and median estimates of annual recurring costs are both in the region of £750,000. The upper-quartile estimate is around £1 million.

1.65 Over the five-year time horizon, applying an annual discount of 3.5%, the NPV of the directed providers' total implementation costs would be circa £5 million and £7 million

62 For instance:

- The cost for annuity providers to update their systems to deliver amended disclosures that include information prompts would be £397,000 per medium-sized firm. Source: FCA, *Implementing information prompts in the annuity market (CP16/37)* (2016).
- The FCA estimated that general insurers would incur a £100,000 cost to include additional information prompts (for example, last year's premium) for each system that required amending, which in that sector indicated that an average firm would incur costs of around £350,000. It additionally identified reductions in provider profits, call-handling costs and shopping around costs. Source: FCA, *Increasing transparency and engagement at renewal in general insurance markets* (2015).

63 For instance, the average firm-level one-off costs were estimated to be around £530,000 for the largest acquirers, £190,000 for other acquirers and minimal for payment facilitators. Average recurring costs were estimated to be around £80,000 for the largest acquirers, £20,000 for other acquirers and £80,000 for payment facilitators.

based on the median and average cost estimates for each type of provider. Based on the upper-quartile estimate for each type of provider, the NPV of implementation costs would be around £10 million.

Effectiveness of trigger messages

1.66 We asked providers to supply evidence about the likely effectiveness of trigger messages at increasing merchant engagement. Some providers gave evidence based on their own experiences of sending triggers to their customers. These demonstrate that merchant responses to messaging in the card-acquiring sector can vary widely.[64] Overall, however, they indicate that a material proportion of merchants that see a prompt would take some action.

1.67 There are examples of trigger message remedies in other sectors having significant impacts on consumer behaviour. For instance:

- Ofcom has found that end-of-contract notifications sent to broadband customers led to increases of 10 percentage points (or more) in the number of customers taking out a new deal, by re-contracting with their existing providers.[65]
- A FCA and CMA report on consumer-facing remedies noted that a collective switching trial in the retail energy market resulted in an almost eightfold increase in switching among customers contacted, from an average of 4% to an average of 27%.[66]
- The FCA found that an information prompt in the annuity market increased switching by 18 percentage points, from 7% to 25%. It also increased shopping around from 13% to 40%.[67]

1.68 We also note that, in the recent BritainThinks SMEs Payment Research, 31% of SMEs stated that a requirement for providers to communicate when a contract is coming to an end or up for renewal would be most helpful to getting a good deal on card-acquiring services.

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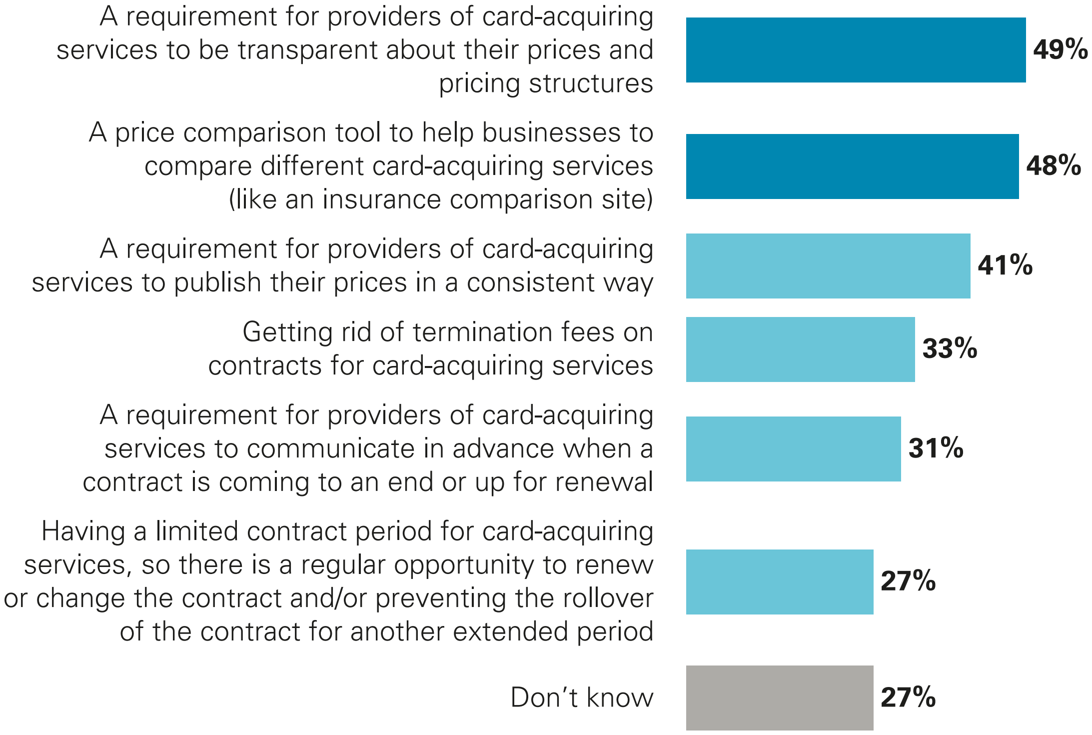
64 Five acquirers provided evidence based on their experiences of contacting their merchant customers across various different scenarios. These scenarios included, for instance, contacting merchant customers to discuss their account, sending emails containing their monthly statements and other mail campaigns. They provided information on the proportion of merchants that took a specific action in response to this contact (such as opening an email, participating in a phone call, signing a new contract with the provider or switching away). The proportion of merchants that took such actions varied widely, from 2% to 70%, but four out of five providers gave examples where over 30% of merchant customers had taken some action in response to the actions of the provider.

65 See Ofcom, *End-Of-Contract Notifications: An ex-post evaluation of the impact of the introduction of ECNs on re-contracting and pricing for broadband services* (6 May 2022), page 13, Table 1.

66 See FCA and CMA, *Helping people get a better deal: Learning lessons about consumer facing remedies* (October 2018), page 19, box 6: Remedies to trigger consumer engagement.

67 See FCA, *Implementing information prompts in the annuity market (CP16/37)* (November 2016), Annex 2 Cost Benefit Analysis, paragraph 18.

Figure 3: % of card-accepting SMEs choosing each of the following options as most helpful to getting a good deal on card-acquiring services



Question: In order to accept card payments, businesses use card-acquiring services. Research suggests that businesses who do not shop around for these card-acquiring services might not always get a good deal on the fees they pay. Which of the following would be most helpful for your business to get a good deal on its card-acquiring services? Base: SMEs accepting card payments (n=461)

Source: BritainThinks SMEs Payment Research, December 2021

1.69 Overall, however, we acknowledge that evidence from other sectors suggests that even well-designed trigger messages may potentially only increase switching by relatively small amounts:

- As noted in paragraph 1.48, including the previous year's general insurance premium on renewal letters resulted in an increase of 3.2 percentage points in switching or negotiation among customers that had experienced a 5% price increase.
- Ofgem found that after sending letters to 10,000 customers directing them to a digital system that allowed them to find an alternative tariff, switching increased from 3% to 5%.[68]
- A wide-ranging review of 'nudges' in retail financial markets found that they increase search and switching behaviour by two to three percentage points on average.[69]

68 Ofgem, *Insights from Ofgem's consumer engagement trials* (September 2019), page 33, paragraph 3.28.

69 For instance, 2-3% on average in financial markets. Source: Zita Vassas, '*Do nudges increase consumer search and switching? Evidence from financial markets*' (April 2021)

1.70 In response to the provisional decision, submissions from stakeholders on the effectiveness of trigger messages included:

- **Merchants could become desensitised to monthly trigger messages which would then be ineffective.** We note, however, that less frequent messaging could also potentially lead to less merchant engagement. For instance, if merchants do not review their billing information in detail each month, a monthly trigger may be more likely to be seen and acted on if it is repeated. In any case, as shown in paragraph 1.72, only very modest increases in switching and renegotiating (and below those increases observed in some other sectors) are required to result in benefits to merchants that are likely to offset implementation costs.
- **The requirement to provide a monthly trigger message may encourage some providers that do not have minimum term contracts to introduce them, providing merchants with less flexibility**. In response, we note that providers that offer contracts with no minimum term may do so, at least partly, to provide merchants greater flexibility. In our view, the requirement to show a trigger message within billing information is unlikely to incentivise a provider to change its service proposition unless (1) merchants do not value the flexibility; or (2) many merchants are likely to act upon the trigger and find a more suitable deal (justifying the presence of the trigger message itself).

1.71 Nevertheless, we acknowledge the risks identified by respondents above. The effectiveness of the remedies may be assessed as part of future monitoring and evaluation activity, and we may subsequently make changes where appropriate.

1.72 On the basis that the NPV cost of the trigger remedy is circa £5 million and £7 million based on the median and average provider cost estimates respectively (or around £10 million based on upper-quartile estimates), the implementation costs are likely to be offset by the benefits to merchants commensurate with an increase in switching and renegotiating of less than 0.2 percentage points (or 0.3 percentage points based on providers' higher cost estimates). An average price fall of around 0.1% would also outweigh the costs of implementation.

18-month POS terminal supply contracts

The problem and rationale for intervention

1.73 Merchants may find that if they attempt to switch provider of card-acquiring services, they need to cancel their current POS terminal contract, which can result in significant termination charges. These termination charges may prevent or discourage merchants from switching provider of card-acquiring services, even if they could get a better deal.

1.74 This situation can arise because POS terminal contracts can have longer initial/renewal terms than card-acquirer contracts and/or they may renew automatically for successive fixed terms. Early termination fees for these contracts can include, for instance, all outstanding payments due up to the end of the initial/renewal term.

1.75 To reduce the barrier that POS terminal contracts pose to switching provider of card-acquiring services, we are requiring that the directed providers limit the initial period of POS terminal contracts faced by their merchant customers to 18 months. After this time, those contracts should roll over in no more than monthly increments. This will reduce early termination charges faced by merchants that are associated with outstanding payments due to the end of the initial/renewal term. This will apply to new contracts and existing contracts once any initial minimum term is completed (or after a maximum of 18 months if there was no initial minimum term) for merchants with card turnovers of up to £10 million. To prevent providers from increasing termination fees in response to the remedy, which could discourage merchant switching, we are also requiring that termination fees only be charged where they are cost based, fully transparent and explained to merchants before they enter into their contract.

1.76 Some merchant customers obtain their POS terminals from a third party, such as an ISO or a dedicated POS terminal supplier.[70] So that the remedy is effective, the directed providers will therefore be required to ensure that POS terminal lease or rental providers that supply their merchant customers comply with the remedy.[71]

1.77 This remedy will ensure that POS terminal contracts represent less of a barrier to merchants switching their provider of card-acquiring services. This should increase levels of merchant engagement and allow them to switch more easily. Providers may in turn be incentivised to compete harder to retain merchants by offering better deals.

Costs of 18-month POS terminal contracts

1.78 For existing POS terminal contracts, any initial minimum term will be able to complete. We therefore do not consider that this remedy is likely to result in providers in aggregate incurring significant one-off costs, for instance, in relation to their back book of customers.[72] Instead, we have focused on understanding:

- the extent to which providers' business models in aggregate currently rely on long or auto-renewing POS terminal contracts
- whether and to what extent providers that currently rely on them can mitigate any adverse impact to their business model
- the impact on merchants if any providers are adversely impacted

70 For instance, out of 13 providers that supplied information on the proportion of their merchant customers that get their POS terminals via different means, five indicated that they refer a higher proportion of their merchant customers to third-party POS terminal suppliers than they supply directly.

71 In paragraphs 1.11 and 1.12 we discuss stakeholder submissions regarding the costs of ensuring relevant third parties comply with the directions.

72 In response to the provisional decision, one acquirer referred to the costs of drawing up new contracts with terminal leasing providers and updating sales scripts etc. but no further cost information was provided. We do not consider that these costs are likely to be significant relative to the gains to switching and renegotiating that are discussed later.

Impact on provider business models

1.79 The extent to which provider business models are impacted by the remedy will likely relate to the extent to which they currently supply long and/or auto-renewing POS terminal contracts. In our March 2022 information request, we asked for information from a range of acquirers, ISOs, and terminal leasing/financing companies on the characteristics of the POS terminal contracts of their merchant customers.

1.80 The data provided was sometimes incomplete or unclear. For instance, some acquirers stated that they could only provide data on POS terminal contracts that they supply directly, not those provided by a third party. Our estimates are therefore subject to a relatively high degree of uncertainty. However, the responses to our March 2022 information request indicated that:[73]

- Most of the providers that we requested information from supply at least some contracts with initial terms longer than 18 months. However, the proportion varies widely between individual acquirers and ISOs. They may be relatively more common among merchants signed up by ISOs, especially where the terminal is supplied (or funded) by a leasing/financing company.
- Contracts with initial terms over three years are less common. For most of those acquirers and ISOs, supply contracts with such terms account for a minority of their merchants' POS terminal contracts, although there are a small number of exceptions.
- The large majority of acquirers that we contacted do not appear to supply POS terminals with auto-renewing contracts. A small number do, including one that only supplies auto-renewing contracts. Responses from ISOs were mixed, although for only one of the four ISOs did auto-renewing contracts make up a very significant proportion of the POS terminals they supply.

1.81 Although most providers supply some contracts with initial terms over 18 months, we consider it more meaningful to assess the impact on business models according to how many contracts they have with significantly longer initial terms. In this regard, we note that almost all of the acquirers and ISOs that responded to our information request reported supplying no or only a few POS terminals on contracts with initial terms over three years. Most acquirers and ISOs that responded to our March 2022 information also indicated that they either do not supply auto-renewing POS terminal contracts or that they constitute a small proportion of all POS terminals supplied.

73 See CP22/3, *Card-acquiring market remedies: Provisional decision* (June 2022), Annex 1, paragraphs 1.70, 1.71 and 1.72 for more details on the information received.

1.82 Conversely, we received around 20 submissions in response to the provisional decision criticising the remedy with respect to its adverse impact on providers, particularly smaller ISOs. Most of these submissions were from ISOs themselves.[74] In summary, the views put forward were:

- It is not possible for these providers to recover all costs (including hardware and support services) within 18 months at existing prices. The remedy will therefore impact these providers' ability to offer competitive products to new customers – that is, they will need to increase monthly fees (or card processing fees) or lower POS terminal or service quality.
- Consequently, larger providers (including those that can 'afford to give away card machines') will benefit at the expense of smaller providers, which may exit the market, leading to reduced competition and higher prices. Two stakeholders noted this would reverse a trend of ISOs bringing more competition to the sector in recent years.
- Some suggested that we should instead mandate maximum initial terms that ranged from 30 months to four years. Other suggestions included giving merchants a clear choice (including longer initial terms), limiting termination fees – for example, to £100, and that acquirer-agnostic POS terminals should be exempt from the remedy.

1.83 As an example of the potential impact of the remedy on providers, one stakeholder told us that the overall cost of sale via an ISO is around £800 (which includes costs such as the terminal and the salesperson's commission). Recovering this over 18 months instead of three years would increase monthly payments by around £22. We accept that providers that seek to recover all costs of sale of that magnitude over the initial period could potentially be disadvantaged when implementing the remedy relative to providers that have lower costs of sale or do not seek to recover them during the initial period.[75]

1.84 It is unclear, however, that providers would necessarily need to recover all costs of sale over an 18-month initial term. One stakeholder told us that more than 95% of its customers do not remain on a rolling contract at the end of the initial period. We consider, however, that this high percentage could potentially reflect the length of the initial period itself (for example, the merchant may seek a new terminal if it is several years old at the end of the initial term). We consider it unlikely that all of a provider's merchant customers would seek to switch supplier after 18 months, particularly when the trigger message indicates to merchants that they have the option of speaking with their current supplier and renegotiating. It is therefore unlikely that ISOs would need to recover all costs of sale for all merchant customers within 18 months, so the impact on ISOs could be less than indicated above.

74 One small acquirer indicated they would also be adversely impacted, and one large acquirer and industry body also noted the adverse impact on ISOs.

75 We note that preventing contracts from auto-renewing for fixed periods could have a similar impact, to the extent that it would lower the early cancellation charges faced by merchants and results in them changing provider more frequently.

1.85 The impact of the remedies package, in terms of increasing merchant engagement, may also reduce the impact on providers by reducing some costs of sale. For instance, more frequent search and switching behaviour may mean that salespeople need to invest less time in order to sign up a new merchant customer.

1.86 In summary:

- The extent to which provider business models are impacted by the remedy will likely relate to the extent to which they currently supply long and/or auto-renewing POS terminal contracts.
- Information received to our March 2022 information request indicated that contracts with initial terms substantially longer than 18 months and/or that auto-renew were relatively uncommon. Feedback to our provisional decision, however, indicates that among some smaller ISOs the prevalence of contracts with initial terms longer than 18 months may be higher.
- We acknowledge that providers for which such contracts constitute a significant proportion of all those that they supply could be impacted by the remedy, although this may be at least partly mitigated to the extent that some merchants will not switch supplier after 18 months and greater merchant engagement reduces some costs of sale.

Whether and to what extent providers can mitigate any impact

1.87 In this section we assess whether and to what extent those providers that may be adversely impacted by the remedy could potentially mitigate its impact.

1.88 Most acquirers and ISOs that responded to our March 2022 information request do not appear to supply a significant proportion of POS terminals on contracts with initial terms longer than three years (or that auto renew).[76] This suggests that other business models, based on shorter POS terminal contract lengths (or contracts that do not auto renew), exist and potentially represent a credible alternative for those providers that do currently supply a significant proportion of POS terminals on such terms. We note that the Direction specifies that existing POS terminal contracts will be able to complete their initial minimum term (that is, even if it exceeds 18 months), so most providers will have several years to adapt their business models.

1.89 One factor that may determine whether providers would be able to change their business model is the extent to which they could begin refurbishing and reissuing POS terminals, or do so to a greater extent. In theory, this could reduce the costs that such providers might seek to recover over the initial term, given that the cost of refurbishing

76 Although the prevalence of POS terminal contracts longer than 18 months is significantly greater, as previously explained, we consider it more meaningful to assess the impact on business models according to how many contracts providers have with significantly longer initial terms.

and reconfiguring a terminal was estimated to be around £80-100 on average versus the wholesale cost of terminals being around £290.[77]

1.90 We found that refurbishments are relatively common among the providers that we issued our information request to in March 2022. However, they are less prevalent among some types of provider (for example, between 26% and 70% of acquirer merchant customers' terminals had been used by another merchant previously but only between zero and 30% for the ISOs that we requested information).[78]

1.91 It is not clear to what extent there may be barriers to some ISOs increasing their propensity to refurbish and reissue terminals. It is possible that smaller providers may not be able to maintain and operate a pool of POS terminals (that is, to be reissued to new customers) as efficiently as larger providers. Without further evidence on this point, we acknowledge that the ability of some ISOs to mitigate the impact of the remedy on their business by refurbishing and reissuing terminals could potentially be limited.

1.92 ISOs provided data in response to our March 2022 information request, indicating that they earn a substantial proportion (over half) of their overall revenues from commissions or referral payments related to the supply of card-acquiring services. To the extent that shorter POS terminal contracts result in merchants switching card-acquirer more frequently, ISO revenues earned from signing-up individual merchants (that is, commissions or referral payments) may fall as the expected value of those merchants declines. This impact may, however, be at least partially offset by the greater opportunities for ISOs to sign up more merchant customers looking to switch.

1.93 In summary, there is evidence that providers impacted by the remedy may have credible alternative business models they can adopt, for instance, based on supplying POS terminal contracts with shorter initial terms. This could in theory be more difficult for providers that, for instance, face barriers to increasing the proportion of terminals that are refurbished and reissued. In the next section, we consider the potential impact on merchants if any providers currently reliant on relatively long or auto-renewing POS terminal contracts were adversely impacted as a result of the remedy.

Impact on merchants

1.94 We considered whether providers might offer merchants worse deals if they could not offer POS terminal contracts longer than 18 months. In response to our information request sent in March 2022, most acquirers and ISOs that we contacted indicated that card-acquiring fees are not currently impacted by the length of the POS terminal contract. One noted that there is an impact, but it is 'minimal'. Two noted that the length of the POS terminal rental can, however, impact the cost of the POS terminal rental (for example, spreading the cost of distribution, hardware and set-up costs).

77 The wholesale cost of providers' most popular terminal models was estimated to range from £170 to £505 per terminal, with an average of roughly £290. The lifespan of a terminal was estimated to be around three to eight years (driven by wear and tear but also technological/standards changes).

78 See CP22/3, *Card-acquiring market remedies: Provisional decision* (June 2022), Annex 1, paragraph 1.77, for more details on the information received.

1.95 However, as discussed above, we received a relatively large number of submissions from ISOs stating that their monthly fees would need to increase (or quality would deteriorate) under this remedy. These respondents noted other related reasons why merchant customers may dislike shorter initial POS terminal contract terms, including:

- Many merchants like the price stability offered by longer contracts.
- Longer contracts allow for savings and/or merchants to access technology they would not be able to on shorter contracts.

1.96 In response, we acknowledge these risks that stakeholders have raised but expect that the aggregate benefit for merchants from the remedy is likely to be positive. The reasons for this include:

- As explained in paragraph 1.103, spend on POS terminals is typically lower than for card-acquiring services. The relative benefits associated with a longer POS terminal contract are therefore likely to be outweighed by the benefits of being more easily and regularly able to switch card-acquiring service provider.
- If some providers were unable to mitigate the impact of the remedy and were adversely impacted or exited the sector, based on the evidence we have seen, merchants would still likely retain a choice of several providers. In our card-acquiring market review, we estimated that there were over 100 acquirers and over 60 ISOs in 2018.

1.97 We therefore consider that the risk of adverse effects on competition or to merchants is low.

Summary on the costs of implementation

1.98 In summary, many providers are unlikely to be significantly impacted by this remedy because only a minority of the POS terminal contracts that they supply currently have initial terms substantially longer than 18 months and/or auto renew. Feedback to our provisional decision indicates, however, that among some ISOs the prevalence of such contracts may be relatively higher. Such ISOs could therefore potentially be impacted by the remedy.

1.99 Business models based on shorter POS terminal contracts (or that do not auto renew) exist and potentially represent a credible alternative for some providers impacted by the remedy. The Direction specifies that existing POS terminal contracts will be able to complete their initial minimum term (that is, even if it exceeds 18 months), so most providers will have several years to adapt their business models.

1.100 To the extent that some impacted providers are unable to adapt and mitigate the impact of the remedy, the risks to competition or merchants appears low. This is because:

- Spend on POS terminals is typically lower than for card-acquiring services. The relative benefits associated with longer POS terminal contract are therefore likely to be outweighed by the benefits of being more easily and regularly able to switch card-acquiring service provider.

- In our card-acquiring market review, we estimated that there were over 100 acquirers and over 60 ISOs in 2018. Therefore, if some providers were adversely impacted, merchants would still likely retain a choice of several providers.

Benefits of 18-month POS terminal contacts

1.101 To assess the benefits of this remedy we considered:

- the proportion of merchants that are on relatively long POS terminal contracts or POS terminal contracts that auto renew
- the extent to which POS terminal contract cancellation charges are likely to currently dissuade merchants from switching card-acquirer
- whether there is evidence that merchants can use card readers[79] instead of POS terminals

The proportion of merchants that are on long and/or auto-renewing POS terminal contracts

1.102 As noted earlier, we identified examples of providers for which a significant proportion of their POS terminal contracts have initial terms over 18 months or auto renew for successive terms. We therefore consider that a material proportion of merchants will benefit from the remedy.

The extent to which POS terminal contract cancellation charges dissuade switching

1.103 Using data from some of the largest acquirers collected during the market review, we attempted to calculate the proportion of merchant spend on POS terminals relative to card-acquiring services. This indicated that the relative importance of merchant spend on POS terminals tends, on average, to be significantly higher for smaller merchants and to diminish in importance for merchants with higher annual card turnover.[80] This is consistent with POS terminal cancellation charges potentially being more likely to deter smaller merchants from switching card acquirer than larger merchants (that is, for which POS terminal costs are relatively less important).

79 A card reader is a device which, in combination with a mobile phone or other computer, acts as a POS terminal to process card payments.

80 We have some concerns about the data that underpinned this analysis but note that it indicated that, on average, as much as one-third to half of total spend for merchants with annual card turnovers of below £15,000 may relate to the POS terminal on average. This is compared to potentially less than 10% of total spend for merchants with annual card turnovers of over £380,000.

1.104 However, to understand the extent to which early cancellation fees may dissuade merchants from switching card-acquirer, we assessed the relative size of the gains from switching card-acquirer versus potential POS terminal cancellation fees.

1.105 As explained in paragraphs 1.128 and 1.129, we conservatively estimate that merchants can save 5% or 10% of MSC depending on their annual card turnover.

1.106 With respect to potential POS terminal cancellation fees, information provided by acquirers, ISOs and terminal leasing/financing companies in response to our formal information request sent in March 2022 indicates that most, but not all, providers could potentially charge early cancellation fees during the POS terminal contract initial period. Around half stated that cancellation fees would cover the remaining payment period (with some offering a small discount on this). The other half could charge both for remaining payments but also additional fees (for example, to cover couriers, refurbishment/restocking, liquidated damages). These additional charges varied, but included one-off fees of between £40 and £200. Some charged additional fees for each remaining month on the contract of £30 to £40.

1.107 The majority of providers do not charge cancellation fees outside the initial period besides courier costs, but a small number do. One provider charges a restocking fee, and three that have auto-renewing contracts apply the same fees in both the renewal and initial periods.

1.108 We compared estimates of the annual gains from switching card-acquirer to the potential cancellation fees associated with POS terminal contracts. Our analysis indicates that cancellation fees could substantially reduce the gains from switching card-acquirer, particularly if there are multiple years left on the POS terminal contract. The remedy will therefore limit the scope for merchants to face large early cancellation fees related to their POS terminal contract if they switch card-acquiring service provider.[81]

1.109 We note that some providers reimburse at least some merchants for cancellation fees. For instance, three out of five ISOs (and at least one acquirer) that responded to our information request reimbursed some of their new customers in 2021. The proportion of new customers reimbursed ranged from less than 5% to around 20%. The average reimbursement was around £600. One stakeholder told us in response to the provisional decision that it is increasingly common for acquirers to cover switching costs. Such actions could act to reduce barriers to switching caused by cancellation fees. However, it is not clear what proportion of merchants that face cancellation fees are reimbursed. More importantly, we consider that the prospect of cancellation fees could dissuade merchants from searching for a new supplier in the first place.[82]

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81 For example, if a merchant with an annual card turnover of around £70k paid £750 in MSC to their acquirer per annum, we later assume (see paragraph 1.128) that it could save 10% or £75 per annum on its MSC by switching acquirer. If the same merchant paid around £20 per month in fees for its POS terminal, early cancellation charges related to outstanding payments would be £240 for each year remaining on the POS terminal contract.

82 We note there is an additional potential benefit which we have not quantified. To the extent reimbursements to cover cancellation fees currently raise the cost-to-serve of providers trying to win new customers (relative to incumbent providers) then lowering these costs, by limiting contract length, could have a pro-competitive effect by lowering the costs of providers when competing to win new customers.

Can merchants use card readers instead?

1.110 We considered to what extent merchants may be able to avoid the early cancellation charges associated with POS terminal contracts by substituting POS terminals for card readers (which a merchant often buys upfront and owns). There is little evidence, however, that POS terminals can be substituted with card readers, or that this is a growing trend in the sector:

- ISOs do not provide card readers and most acquirers reported that 5% or less of their merchant customers use them.
- Providers told us that card readers can be appropriate for small/low volume merchants and sole traders (or as a backup to a POS terminal). However, card readers were not a suitable substitute for POS terminals for many types of merchant for a variety of reasons.
- There was no evidence or assertion of any trend for merchants to switch away from POS terminals towards card readers.

Summary of benefits

1.111 POS terminal contract early cancellation charges can be significant relative to the gains from switching card-acquiring service provider (and merchants do not typically have the option to use a card reader instead). The remedy will limit early cancellation fees associated with outstanding payments on POS terminal contracts.[83] This will increase the net gains to switching card-acquirer for the material proportion of merchants that could otherwise face large early cancellation fees covering many months of POS terminal fee repayments.

1.112 We also note that many merchants surveyed as part of BritainThinks SMEs Payment Research indicated that they are in favour of remedies that limit contract length and termination fees:

- 33% of SMEs stated that getting rid of termination fees on contracts for card-acquiring services would be most helpful in getting a good deal.
- 27% stated that having a limited contract period for card-acquiring services would be most helpful in getting a good deal.[84]

83 These can be all, or a substantial proportion, of the early cancellation charges that a merchant faces.

84 Respondents to the BritainThinks SMEs Payment Research online questionnaire were asked 'In order to accept card payments, businesses use card-acquiring services. Research suggests that businesses who do not shop around for these card-acquiring services might not always get a good deal on the fees they pay. Which of the following would be most helpful for your business to get a good deal on its card-acquiring services?' Base: SMEs accepting card payments (n=461).

The costs and benefits of our package of remedies

Total costs of implementation

1.113 The NPV of the costs of implementing our remedies are:

- **Summary box and online quotation tool**: around £37 million or £45 million based on median and average cost estimates (or circa £57 million based on providers' upper-quartile cost estimates)
- **Trigger messages**: around £5 million or £7 million based on median and average cost estimates (or circa £10 million based on providers' upper-quartile cost estimates)
- **18-month POS terminal supply contracts**: We do not consider that providers as a whole will incur significant costs implementing this remedy.

1.114 The overall NPV sum of implementation costs are in the region of £42 million and £52 million based on the median and average provider cost estimates (or circa £67 million based on upper-quartile estimates). We consider this may overestimate the total costs of implementing the package.

Benefits of increasing merchant engagement

1.115 Estimating the value of the benefits of our remedies precisely is difficult because it relies on, among other things, the extent to which they will result in changes to merchant and provider behaviour.

1.116 One illustration that the potential gains from increasing merchant engagement are likely to be significant is the value of cost savings from the IFR caps that were not passed through to merchants. In our card-acquiring market review, we estimated that around £600 million of IFR cost savings were passed through to merchants on IC++ pricing in 2018. These are typically the largest merchants, but even if the value of cost savings that were not passed through to other merchants is smaller, it still appears likely to be at least tens of millions of pounds per annum and a NPV of hundreds of millions of pounds over the time horizon.

1.117 Benefits may accrue to different groups of merchants[85], but the greatest gains are likely to be to those that switch or negotiate better deals as a direct consequence of our

85 Including:

- Merchants that switch or renegotiate as a consequence of the remedies package.
- Merchants that switch to or renegotiate to a better deal than they would otherwise have absent the remedies package (for example, because they can find better deals or providers offer improved offers).
- Merchants that do not switch or renegotiate, but are offered a better deal by their current provider.

remedies. We have therefore estimated the likely value to merchants of increasing rates of switching and renegotiation.

1.118 Our remedies may have further benefits and, to illustrate the potential value of a small general improvement in competition, we estimated the value of a small average price reduction.

Gains from switching

1.119 We have reviewed the following evidence to derive estimates for the likely percentage gains available to merchants that switch to a better deal:

- Econometric analysis undertaken as part of our card-acquiring market review.
- Mystery shopping exercises submitted by providers.
- Our own desk research of provider/intermediary websites and customer reviews.

1.120 We then use our estimate of the likely percentage gain from switching, together with data on merchant customer numbers, card turnover and the fees that merchants pay for card-acquiring services, to calculate the potential value of benefits arising from an increase in merchant switching.

Econometric analysis

1.121 In our market review, we found that merchant customers of the largest five acquirers, with annual card turnover below £10 million, paid a higher merchant service charge (MSC) if they had been with their acquirer for a longer period. The difference in MSC paid ranged from 0.02% to 0.24% of annual card turnover.[86]

1.122 We accepted that this analysis could not precisely estimate the gains from switching.[87] Nevertheless, we consider that it provides one estimate of the magnitude of gains that may be available to merchants that switch provider. Our further analysis of these results indicates that the typical merchant[88] with an annual card turnover of below £10 million could save between 13% and 19% of their MSC by switching provider.[89]

86 See MR18/1.8, *Market review into the supply of card-acquiring services: Final report* (November 2021), Annex 2, Table 12.

87 This was because (i) it is also possible that merchants that had already switched were those with most to gain from switching; (ii) the analysis did not differentiate between those merchants that were new to card payments and those that had switched provider; and (iii) the analysis did not take account of differences in service quality.

88 Depending on their annual card turnover and how long they have been with their current provider.

89 This is based on (i) the age indicator coefficients in Table 12 of our market review Final Report, Annex 2; and (ii) our analysis of data obtained in the market review regarding the average and median annual card turnover and MSC paid by merchant customers of the largest five acquirers in 2018 for each of the following annual card turnover groupings – £0-£15,000, £15,000-£180,000, £180,000-£380,000, £380,000-£1 million, £1 million to £10 million. The econometric analysis for merchants with annual card turnovers of between £10 million and £50 million was not considered robust, so we cannot discount, based on that analysis, that the typical savings for these merchants may be small. The market review merchant survey showed that the median merchant had been with their main provider for between two to five years. As such, we used the average indicated gains from switching for merchants that had been with their acquirer for two to three years and over three years.

1.123 There are several reasons why these estimates may underestimate the potential savings available from switching:

- Difficulties comparing deals mean that some customers have not switched to the best deal available. As a result of our remedies, merchants may find it easier to identify and switch to better deals, potentially making greater savings.
- The analysis was based on data obtained from the five largest acquirers. In some cases, better deals could be available from other acquirers and payment facilitators.
- The analysis does not include potential savings from associated purchases, such as POS terminal rental.

Mystery shopping evidence

1.124 Two providers submitted the results from mystery shopping exercises. One of these exercises:

- Illustrated the typical monthly costs for a merchant with an annual card turnover of £50,000, based on a quote from a 'traditional competitor' (around £50) versus the average price from Square, SumUp and Zettle (£72), a difference of around 44%.[90]
- Stated that all providers had been willing to negotiate when presented with better competitor offers. There were examples of two directed providers reducing their initial headline rates by 30% and 32% respectively for a merchant with a relatively low annual card turnover.
- Indicated that 'smaller competitors' have fee rates that are 0.2% and 0.3% lower than [redacted] and [redacted] especially for merchants with lower annual card turnovers.

1.125 Another provider submitted the results of a mystery shopping exercise in which seven quotes were collected for a merchant with an annual card turnover of £480k.[91] The pricing data suggested that merchants may be able to save between 1% and 48% by choosing the cheapest quote over a more expensive quote. The average and median savings were 14% and 13% respectively (or around 8% if the most expensive quote, which was nearly double the others, was removed).

1.126 We consider that these documents provide evidence of substantial potential savings available to merchant customers that switch or renegotiate with their current provider.

90 The difference was much greater for a merchant with an annual card turnover of £150,000, but we consider this is a less relevant comparison as relatively fewer merchants with that level of annual card turnover would be expected to purchase from a payment facilitator.

91 These ranged from a minimum of £403 to a maximum of £782. The interquartile range was from £412 to £487 with a median monthly cost of £464.

Internet research

1.127 We reviewed a range of provider/intermediary websites and found claims or examples of savings available to merchants that switched provider ranging from 40% to 50%. Some online customer reviews of acquirers and payment facilitators that we saw similarly claimed savings of between 30% and 60%. We acknowledge that these are likely to reflect the potential upper bounds of possible gains from switching as opposed to the average or typical gains.

Summary of the gains from switching

1.128 We have made the following conservative estimates of the likely percentage gains available to merchants that switch to a better deal:

- 10% of MSC, for merchants with annual card turnovers of up to £10 million.
- 5% of MSC, for merchants with annual card turnovers of between £10 million and £50 million.

1.129 Using these assumptions, with data we obtained from acquirers and payment facilitators on their merchant customers and the total card turnover and MSC paid by these merchant customers during 2021, we estimated that an increase in merchant switching per year of one percentage point[92] would likely result in benefits of around £2 million in the first year to those merchants that switch.[93] Over five years, we calculate that an increase in merchant switching per year of one percentage point results in an NPV of benefits of around £27 million.[94]

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92 That is, increasing the annual switching rate for SME merchants from as low as around 8% (see MR18/1.8, *Market review into the supply of card-acquiring services: Final report* (November 2021), page 98, paragraph 6.25) to around 9%.

93 This can broadly be derived as follows:

- The data we obtained from providers indicated that merchant customers with annual card turnover between zero and £10 million had an average annual card turnover of £86,000 and, on average, paid an MSC of £683. Savings of 10% equate to £68 on average. We estimate that the directed providers had around three million contracts with such merchants in March 2022, the saving from 1% of them switching equals around £2.1 million.
- Merchant customers with annual card turnovers between £10 million and £50 million had an average annual card turnover of £2.1 million and, on average, paid an MSC of £106,000. Savings of 5% equate to £5,000 on average. We estimate that the directed providers had over 5,000 contracts, so the saving from 1% of them switching equals around £0.3 million

Where we did not have data on merchant numbers in March 2022 split by card turnover for a directed provider, where possible we instead used data collected during the market review relating to merchant customer numbers in 2018 or 2019.

94 We assume that the switching rate is higher by one percentage point in each year of the time horizon. The benefits to merchants that switch in a particular year are assumed to accrue to them over a maximum of three years, rather than across the whole time horizon, since some merchants would likely have switched or renegotiated within that period absent the intervention. We do not include any benefits occurring beyond the time horizon. This means, for instance, that for merchants that switch in the fourth year of the time horizon, benefits are only included for the year of the switch and the subsequent year. Gains in future years are also discounted by 3.5% per annum, to reflect that merchants will typically place a lower value on future benefits.

Gains from renegotiating

1.130 There is relatively less evidence on the propensity for merchants to renegotiate and the gains from doing so:

- Our card-acquiring market review merchant survey found that 21% of surveyed merchants had tried to negotiate better terms with their main provider at some point. Most of these merchants judged that they had negotiated an improvement.
- The merchant survey also indicated that the typical merchant had been with its main provider for between two and five years.

1.131 Taken together, this indicates that the proportion of merchants that negotiate better terms annually appears broadly similar to the proportion that switch provider.[95]

1.132 The merchant survey evidence and mystery shopping evidence referred to above indicate that providers are likely to be willing to offer better deals to merchants that seek to negotiate. The example above of providers that were willing to reduce their initial headline rates by 30% and 32% indicates that gains from negotiating can be significant. However, it is not clear that these are representative of the typical gains achievable by merchants that renegotiate with their existing provider.

1.133 In the absence of further evidence, we consider that a conservative approach is to assume that our remedies are likely to increase rates of renegotiation at the same rate as increases in switching, but that the benefits achieved by merchants that renegotiate with the current provider may be only around half of those set out in paragraph 1.128 that are associated with switching provider.

1.134 An increase in switching of one percentage point is therefore assumed to be associated with a broadly similar increase in renegotiation, with benefits of around £1.2 million in the first year to those merchants that renegotiate and a NPV of around £13.3 million over the time horizon.

Average price reduction

1.135 We requested information from a range of acquirers and payment facilitators on the total merchant service charge (MSC) collected from UK merchants with annual card turnovers of up to £50 million. From the information received, we estimate that the total MSC paid by merchants totalled between £2.5 billion and £3.0 billion in 2021.

1.136 On that basis, we note that a 1% average fall in fees across all merchants would constitute a reduction of fees of around £25 million in the first year (and an NPV of more than £100 million over the five-year period of the direction).

95 That indicates that between 4% and 11% of merchants currently try to negotiate each year, of which most judge they are successful.

Conclusion

1.137 The NPV of the implementation costs of the remedy package are estimated to be in the region of £42 million and £52 million based on the median and average of provider cost estimates (or £67 million based on upper-quartile estimates).

1.138 These implementation costs are likely to be offset by the benefits to merchants commensurate with an increase in switching and renegotiating of around 1.1 percentage points or 1.3 percentage points based on providers' median and average cost estimates respectively (or 1.7 percentage points based on providers' higher cost estimates). An average price fall of around 0.6% would also likely offset the costs of implementation, based on providers' higher cost estimates. While we acknowledge there is uncertainty around the positive effect of the remedies, this suggests that even only a relatively modest impact will outweigh the implementation costs. Our judgement is therefore that these remedies will have a net positive benefit for users of payment systems.

1.139 We consider that our conclusion is based on relatively conservative assumptions insofar that we expect that actual implementation costs may be lower than estimated and some evidence indicates that the average savings for merchants from switching and renegotiating could be higher than we have assumed.

1.140 On that basis, the evidence indicates that the net impact of the remedies, and the remedies package, on merchants (and ultimately, consumers) is positive.

Annex 2
Specific Direction 14 (card-acquiring – provision of information (summary box))

Payment Systems Regulator

Specific Direction 14 requiring providers of card-acquiring services to provide information to merchants

Specific Direction 14 (card-acquiring – provision of information (summary box))

October 2022

Specific Direction 14
(card-acquiring – provision of information (summary box))

1 Recitals

Whereas:

1.1 The PSR launched its card-acquiring market review in 2018 due to concerns that card-acquiring services may not offer value for money for merchants. It published the final report on 3 November 2021. It concluded that the supply of card-acquiring services does not work well for small and medium-sized merchants and large merchants with annual card turnover up to £50 million.

1.2 In the final report, the PSR identified three features that individually and in combination, restrict merchants' willingness and ability to search and switch between card-acquiring providers.

1.3 The PSR wants to remedy these features to improve outcomes for merchants. It aims to do this by:

a. encouraging them to search and switch, or negotiate with their existing provider

b. reducing the obstacles to switching

c. 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

1.4 This specific direction is intended to remedy the feature of concern that acquirers and independent sales organisations (ISOs) do not typically publish their prices for card-acquiring services.

1.5 This specific direction 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.

1.6 This direction is addressed to 14 specified payment service providers (PSPs).

2 Powers exercised and purpose

2.1 Visa Europe and Mastercard are payment systems designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 (the Act) for the purposes of Part 5 of the Act.

2.2 The PSR makes this direction in accordance with sections 54(1) and (3) (Regulatory and competition functions – directions) of the Act. In accordance with section 54(3)(c), this direction applies to specified persons, all of which are participants in the Visa Europe and Mastercard regulated payment systems.

2.3 In making its decision to use its section 54 powers, the PSR had regard to section 62(2)(a) (Duty to consider exercise of powers under the Competition Act 1998) of the Act.

2.4 The purpose of this direction is to require directed PSPs to provide information to merchants in the form of a bespoke summary box setting out key price and non-price service elements of card-acquiring services. This direction also requires directed PSPs to provide information to prospective customers through an online quotation tool that generates indicative key price and non-price information and to ensure that any ISOs offering card-acquiring services provided by the directed PSPs provide the same.

Direction

NOW the PSR gives the following specific direction to:

Adyen UK Limited

Barclays Bank PLC

Chase Paymentech Europe Limited

Elavon Financial Services DAC

EVO Payments International GmbH, Branch UK

First Data Europe Limited

First Merchant Processing (Ireland) DAC

GPUK LLP

Lloyds Bank plc

PayPal (Europe) Sarl et Cie SCA

Square UK

Stripe Payments UK Ltd

SumUp Payments Limited

Worldpay (UK) Limited

3 General provisions

Scope of this direction

3.1 This direction applies to the 14 directed PSPs named above.

3.2 This direction applies in relation to participation in the Visa Europe and Mastercard regulated payment systems.

3.3 A relevant merchant is any merchant with an annual card turnover of up to £50 million.

3.4 Paragraphs 3.5 to 3.12 of this direction apply in relation to any relevant merchant with a contract for card-acquiring services with a directed PSP.

Requirements for providing information – summary box

3.5 A directed PSP must provide information to relevant merchants in the form of a bespoke summary box.

3.6 The bespoke summary box must include the information which is published on the PSR's website from time to time under the title 'Summary box template'.

3.7 The information must be provided in the form published on the PSR's website from time to time under the title 'Summary box template'.

3.8 The PSR may amend the information to be included under paragraph 3.6 or the form to be used under paragraph 3.7, and will provide reasonable notice of any such change.

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

3.10 The bespoke summary box must be provided at the head of:

a. any monthly billing information

b. any other periodic billing information

3.11 If a directed PSP gives a merchant billing information through a merchant portal it must display the bespoke summary box in a prominent place. This obligation applies whether or not a merchant also receives billing information in another way.

3.12 A directed PSP may not charge a merchant for the provision of a bespoke summary box.

Requirements for providing information – online quotation tool

PSPs

3.13 A directed PSP must provide an online quotation tool on their website.

3.14 The online quotation tool must:

a. ask relevant merchants that are prospective customers to enter key information

b. use that information to generate indicative pricing and non-pricing information (indicative information)

c. provide the indicative information to relevant merchants that are prospective customers

3.15 The key information referred to in paragraph 3.14a is:

a. total card acceptance in previous 12 months, if available

b. average transaction value

c. merchant category code

3.16 The indicative information referred to in paragraph 3.14b and 3.14c is that which is published on the PSR's website from time to time under the title of 'Online quotation tool template'.

3.17 The indicative information must be provided in the form published on the PSR's website from time to time under the title 'Online quotation tool template'.

3.18 The PSR may amend the key and indicative information prescribed at paragraphs 3.15 and 3.16 or the form to be used under paragraph 3.17, and will provide reasonable notice of any such change.

3.19 A directed PSP may allow its online quotation tool to provide other information in addition to the indicative information prescribed in paragraph 3.16.

3.20 In order to facilitate the provision of other information as described at paragraph 3.19, a directed PSP may allow prospective customers to enter other information in addition to the key information prescribed in paragraph 3.15.

3.21 If a directed PSP chooses to provide and/or allow additional information as set out in paragraphs 3.19 and 3.20, this must not affect the generation and provision of indicative information as set out in paragraphs 3.14 and 3.16.

3.22 An online quotation tool must not demand contact details, including a telephone or email address, in order to generate and provide indicative pricing.

3.23 A directed PSP may not charge a merchant for the use of an online quotation tool.

3.24 The online quotation tool must be displayed prominently fashion on the directed PSP's website, no more than one click from the landing page.

ISOs

3.25 Sometimes a directed PSP will not have a direct relationship with a merchant using its card-acquiring services. If the merchant has contracted such services through a relevant ISO, the directed PSP must ensure that the relevant ISO hosts on its website an online quotation tool as required at paragraphs 3.14 to 3.24 above.

3.26 A directed PSP must provide a relevant ISO with reasonable notice of any amendment to the 'summary box template' or 'online quotation tool template' which they are notified of in accordance with paragraphs 3.8 or 3.18 above.

3.27 A relevant ISO is any ISO which has a contract with a directed PSP where the purpose of the contract involves merchants using the directed PSP's card-acquiring services.

General requirements

3.28 A directed PSP must take into account any relevant guidance the PSR publishes.

3.29 A directed PSP must make a relevant ISO aware of any relevant guidance the PSR publishes in a timely fashion.

3.30 A directed PSP must ensure as far as possible that any information provided to merchants under this direction is complete and accurate.

3.31 Reasonable modifications may be made to either the 'summary box template' form or the 'online quotation tool' form for accessibility reasons only. Such modifications may not include changes to the information or categories of information to be provided.

4 Key definitions

4.1 **Act** means the Financial Services (Banking Reform) Act 2013.

4.2 **Billing information** means the total amount of transactions, fees and charges enabling a merchant to reconcile and confirm card acceptance costs.

4.3 **Card-acquiring services** means services to accept and process card transactions on behalf of a merchant, resulting in a transfer of funds to the merchant.

4.4 **Card turnover** means total amount of card transactions taken by a merchant within a specified period.

4.5 **Contract for card-acquiring services** means an agreement between an acquirer and an organisation for the provision of card and affiliated services for the exchange of monetary value.

4.6 **Directed PSPs** means the PSPs to which this specific direction is given.

4.7 **Merchant portal** means an online service provided to a merchant to allow them to access information about their card-acquiring services at any time, including details of transactions acquired by the provider.

4.8 **Independent sales organisation (ISO)** means an organisation that sells card-acquiring and ancillary products and services on behalf of an acquirer, and in return is paid commission for the sales and/or ongoing management of the relationship.

4.9 **Merchant** means an organisation which accepts card payments.

4.10 **Participant** has the meaning given by section 42(2) of the Act.

4.11 **Payment facilitator** means a PSP that contracts with one or more merchants to provide card-acquiring services, but may not have a direct contractual relationship with the operator of a card payment system. A payment facilitator must be registered with the operator of a card payment system by an acquirer with whom it contracts.

4.12 **Payment system** has the meaning given by section 41 of the Act.

4.13 **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of the Act.

4.14 **POS terminal** means an electronic device that a merchant uses to accept a card in a card-present transaction without the need to connect to a smartphone or tablet.

4.15 **PSP** means a payment service provider within the meaning of section 42 of the Act.

4.16 **Regulated payment system** means a payment system designated by HM Treasury under section 43 of the Act.

5 Monitoring

5.1 The PSR may from time to time in writing require a directed PSP to provide it with a report on its compliance with:

a. this direction

b. any requirements the PSR makes known in writing to the directed PSP or issues in guidance

5.2 The directed PSP must provide the report required under paragraph 5.1 by the date given by the PSR.

5.3 The PSR may from time to time in writing require a directed PSP to provide or produce information about:

a. how the PSP is complying, or proposes to comply, with this direction

b. which the PSR otherwise requires in connection with monitoring compliance with or the effectiveness of this direction

5.4 The directed PSP must provide the information by the date given by the PSR.

6 Application

6.1 This direction applies to the directed PSPs named above.

7 Commencement and duration

7.1 This specific direction comes into force on 6 July 2023.

7.2 This specific direction shall continue in force until such time as it is varied or revoked by the PSR.

7.3 The PSR will review this direction three years and five years after the date on which it comes into force.

7.4 The PSR may also review this direction at any other time than as provided for in paragraph 7.3.

7.5 The PSR may vary or revoke this direction at any time.

8 Citation

8.1 This specific direction may be cited as Specific Direction 14 (card-acquiring – provision of information (summary box)).

9 Interpretation

9.1 The headings and titles used in this specific direction are for convenience and have no legal effect.

9.2 The Interpretation Act 1978 applies to this specific direction as if it were an Act of Parliament, except where words and expressions are expressly defined.

9.3 References to any statute or statutory provisions must be construed as references to that statute or statutory provision as amended, re-enacted or modified, whether by statute or otherwise.

9.4 In this specific direction, the word 'including' shall mean including without limitation or prejudice to the generality of any description, definition, term or phrase preceding that word, and the word 'include' and its derivatives shall be construed accordingly.

Made on 6 October 2022

Chris Hemsley
Managing Director
Payment Systems Regulator

Explanatory notes

Summary box

1. With respect to pricing information on transactional charges, this direction is intended to take into account that different PSPs offer card-acquiring service products that differ in how the cost of accepting a transaction is determined. PSPs may apply a 'headline rate' to a particular type of transaction which can take the form of a pence per transaction fee, an ad valorem fee or a combination of the two. Some PSPs may also apply additional transaction charges to certain transactions – for example, card-not-present transactions. The intention is that the summary box clearly explains to the merchant how they are charged for accepting transactions and to highlight that the different characteristics of a transaction may affect the cost.

2. With respect to pricing information on non-transactional charges, this direction is intended to take into account the fact that for merchants using many different CAS products, transaction charges will not account for all of their charges; in many cases, non-transactional charges will represent a significant portion of their total charges for accepting card payments. The summary box is therefore intended to capture some of the more significant recurring charges to highlight to merchants that these charges will also apply and the level of these charges. Where a provider does not charge such fees, or a third party provides and charges the merchant directly for certain services (such as supplying POS terminals), they will be able to note this accordingly.

Online quotation tool

3. By displaying a quote in a format based closely on the summary box format, merchants will be able to easily compare the quote with their summary box information provided by their existing provider. This will inform their decisions whether to switch provider or, alternatively, to attempt to negotiate better pricing with their existing provider.

4. The pricing and non-price information contained in the quote is intended to be indicative. This direction takes into account that the provider will need additional information and to undertake certain processes (such as 'know-your-customer' (KYC) and anti-money laundering checks) from the merchant in order to provide a contractual offer with binding pricing. That said, as many of the key information items providers use to determine pricing are contained in the summary box (for example, average transaction value, merchant category code, etc), 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.

Application to ISOs

5. ISOs can be an important entry point for merchants looking to buy card-acquiring services. ISOs are tasked by acquirers with procuring new merchant relationships in return for commission. Given ISOs' role in merchant recruitment, the PSR is directing the directed PSPs to ensure that any ISOs they work with provide online quotation tools. This will allow merchants to have access to a wide range of indicative pricing information, which they can use to inform their decisions when shopping around.

6. The PSR would expect a directed PSP to make partner ISOs aware of the relevant requirements of this direction and any other applicable guidance, publication or consultation by the PSR. It should do so in a timely manner.

Modifications for accessibility

7. The direction allows for reasonable modifications to be made to the prescribed forms for the summary box and/or online quotation tool where necessary for accessibility reasons – for example, to allow for an Easy Read version. No modifications other than those necessary may be made to the format, and all information prescribed must be included.

Status of directions and explanatory notes

Directions give rise to binding obligations. Breaching a direction is a compliance failure which makes a party liable to regulatory sanction.

Explanatory notes may be used, among other things, to explain provisions and requirements (such as General Directions) and/or to indicate how to approach compliance.

Annex 3
Specific Direction 15 (card-acquiring – trigger messages)

Specific Direction 15 requiring providers of card-acquiring services to provide prompts to merchants

Specific Direction 15 (card-acquiring – trigger messages)

October 2022

Specific Direction 15
(card-acquiring – trigger messages)

1 Recitals

Whereas:

1.1 The PSR launched its card-acquiring market review in 2018 due to concerns that card-acquiring services may not offer value for money for merchants. It published the final report on 3 November 2021. It concluded that the supply of card-acquiring services does not work well for small and medium-sized merchants and large merchants with annual card turnover up to £50 million.

1.2 In the final report, the PSR identified three features that individually and in combination, restrict merchants' willingness and ability to search and switch between card-acquiring providers.

1.3 The PSR wants to remedy these features to improve outcomes for merchants. It aims to do this by:

a. encouraging them to search and switch, or negotiate with their existing provider

b. reducing the obstacles to switching

c. 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

1.4 This specific direction is intended to remedy the feature of concern of the indefinite duration of acquirer and payment facilitator contracts for card-acquiring services.

1.5 This direction is addressed to 14 specified payment service providers (PSPs).

2 Powers exercised and purpose

2.1 Visa Europe and Mastercard are payment systems designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 (the Act) for the purposes of Part 5 of the Act.

2.2 The PSR makes this direction in accordance with sections 54(1) and (3) (Regulatory and competition functions – directions) of the Act. In accordance with section 54(3)(c), this direction applies to persons of a specified description, all of which are participants in the Visa Europe and Mastercard regulated payment systems.

2.3 The PSR has had regard as appropriate to sections 49 to 53 (General duties of the Regulator) and section 62(2)(a) (Duty to consider exercise of powers under the Competition Act 1998) of the Act.

2.4 The purpose of this direction is to require directed PSPs to provide a trigger message to merchants before the end of the initial minimum term (and any renewal after that), or every month in contracts with no term or which continue after the initial minimum term for an indefinite period, to encourage merchants to consider searching and switching providers.

Direction

NOW the PSR gives the following specific direction to:

Adyen UK Limited

Barclays Bank PLC

Chase Paymentech Europe Limited

Elavon Financial Services DAC

EVO Payments International GmbH, Branch UK

First Data Europe Limited

First Merchant Processing (Ireland) DAC

GPUK LLP

Lloyds Bank plc

PayPal (Europe) Sarl et Cie SCA

Square UK

Stripe Payments UK Ltd

SumUp Payments Limited

Worldpay (UK) Limited

3 General provisions

Scope of this direction

3.1 This direction applies to the 14 directed PSPs named above.

3.2 This direction applies in relation to participation in the Visa Europe and Mastercard regulated payment systems.

3.3 This direction applies in relation to merchants with an annual card turnover of up to £50 million.

Requirements for providing information – trigger message

3.4 A directed PSP must send an individual message (trigger message) to a merchant with a contract for card-acquiring services.

3.5 Where there is an initial minimum term to the merchant's contract, including where the initial minimum term is renewed, the trigger message must include all of the following:

a. The fact that the end of the term is approaching and the date the minimum term ends on.

b. An explanation that the merchant can shop around to see if they can get a better deal.

c. An explanation that consumption information is available in the merchant's summary box.

d. Information about the directed PSP's online quotation tool, which merchants can use to find indicative information.

e. A link to the directed PSP's online quotation tool.

f. An explanation that similar online quotation tools are available from other providers.

g. An explanation that merchants may want to consider other service features as well as price when they assess their options.

h. An explanation that merchants may want to consider POS terminal lease or rental contract arrangements, including minimum contract end term dates, when they assess their options.

3.6 Where there is no initial minimum term, or where any initial minimum term is complete and the contract carries on indefinitely, the message must include the items outlined in paragraphs 3.5(b) to (h).

3.7 Where there is an initial minimum term to the contract referred to in paragraph 3.4, the 'relevant date' for providing a trigger message is:

a. 31 calendar days prior to the last day of the minimum term period or any renewal after that, and

b. once the minimum term is complete, monthly thereafter

3.8 Where there is no initial minimum term to the contract referred to in paragraph 3.4, the 'relevant date' for providing a trigger message is:

a. the date which is one month after the date on which the contract was agreed, and

b. monthly thereafter

3.9 Where a directed PSP sends a merchant monthly billing information, it must include a trigger message in the monthly invoice it sends to that merchant closest to the 'relevant date'.

3.10 A directed PSP must include a trigger message provided in accordance with paragraph 3.10 on the front page of the merchant's monthly billing statement.

3.11 Where a merchant accesses an account through a merchant portal, a directed PSP must display a trigger message continuously from the 'relevant date' either:

a. where there is an initial minimum term which is not yet complete, until the date on which that term expires, or

b. where the initial minimum term has already passed, or where there was no initial minimum term, for one month

A directed PSP must display a trigger message provided in accordance with paragraph 3.12(a) or (b) prominently on the first landing page of the electronic dashboard.

General

3.12 A directed PSP must take into account any relevant guidance the PSR publishes.

3.13 A directed PSP must ensure that any information it provides to merchants under this direction is complete and accurate.

4 Key definitions

4.1 **Act** means the Financial Services (Banking Reform) Act 2013.

4.2 **Billing information** means the total amount of transactions, fees and charges enabling a merchant to reconcile and confirm card acceptance costs.

4.3 **Card-acquiring services** means services to accept and process card transactions on behalf of a merchant, resulting in a transfer of funds to the merchant.

4.4 **Contract for card-acquiring services** means an agreement between an acquirer and an organisation for the provision of card and affiliated services for the exchange of monetary value.

4.5 **Directed PSPs** means the PSPs to which this specific direction is given.

4.6 **Electronic dashboard** means an online service provided to a merchant to allow them to access information about their card-acquiring services at any time, including details of transactions acquired by the provider.

4.7 **Initial minimum term** means the shortest length of the first term of a contract, and is typically referred to as 'minimum term', 'minimum period' or 'initial term' in POS terminal contracts.

4.8 **Merchant** means an organisation which accepts card payments.

4.9 **Online quotation tool** means the tool for generating indicative pricing mandated in Specific Direction X1 (card-acquiring – provision of information (summary box)).

4.10 **Participant** has the meaning given by section 42(2) of the Act.

4.11 **Payment System** has the meaning given by section 41 of the Act.

4.12 **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of the Act.

4.13 **POS terminal** means an electronic device that a merchant uses to accept a card in a card-present transaction without the need to connect to a smartphone or tablet.

4.14 **POS terminal lease or rental** means a contract entered into by a merchant to lease or rent a device that enables the acceptance of card transactions for processing by an acquirer related to a card scheme.

4.15 **PSP** means a payment service provider within the meaning of section 42 of the Act.

4.16 **Regulated payment system** means a payment system designated by HM Treasury under section 43 of the Act.

5 Monitoring

5.1 The PSR may from time to time in writing require a directed PSP to provide it with a report on its compliance with:

a. this direction

b. any requirements the PSR makes known in writing to the directed PSP or issues in guidance

5.2 The PSP must provide the report required under paragraph 5.1 by the date given by the PSR.

5.3 The PSR may from time to time in writing require a directed PSP to provide or produce information about:

a. how the PSP is complying, or proposes to comply, with this direction

b. which the PSR otherwise requires in connection with monitoring compliance with or the effectiveness of this direction

5.4 The PSP must provide the information by the date given by the PSR.

6 Application

6.1 This direction applies to the directed PSPs named above.

7 Commencement and duration

7.1 This specific direction comes into force on 6 July 2023.

7.2 This specific direction shall continue in force until such time as it is varied or revoked by the PSR.

7.3 The PSR will review this direction three years and five years after the date on which it comes into force.

7.4 The PSR may also review this direction at any other time than as provided for in paragraph 7.3.

7.5 The PSR may vary or revoke this direction at any time.

8 Citation

8.1 This specific direction may be cited as Specific Direction 15 (card-acquiring – provision of information (trigger messages)).

9 Interpretation

9.1 The headings and titles used in this specific direction are for convenience and have no legal effect.

9.2 The Interpretation Act 1978 applies to this specific direction as if it were an Act of Parliament, except where words and expressions are expressly defined.

9.3 References to any statute or statutory provisions must be construed as references to that statute or statutory provision as amended, re-enacted or modified, whether by statute or otherwise.

9.4 In this specific direction, the word ‘including’ shall mean including without limitation or prejudice to the generality of any description, definition, term or phrase preceding that word, and the word ‘include’ and its derivatives shall be construed accordingly.

Made on 6 October 2022

Chris Hemsley
Managing Director
Payment Systems Regulator

Annex 4
Specific Direction 16 (acquirer POS terminal lease extent)

Specific Direction 16 limiting the length of initial terms for point-of-sale terminal contracts

Specific Direction 16 (acquirer POS terminal lease extent)

October 2022

Specific Direction 16
(acquirer POS terminal lease extent)

1 Recitals

Whereas:

1.1 The PSR launched its card-acquiring market review in 2018 due to concerns that card-acquiring services may not offer value for money for merchants. It published the final report on 3 November 2021. It concluded that the supply of card-acquiring services does not work well for small and medium-sized merchants and large merchants with annual card turnover up to £50 million.

1.2 In the final report, the PSR identified three features that individually and in combination, restrict merchants' willingness and ability to search and switch between card-acquiring providers.

1.3 The PSR wants to remedy these features to improve outcomes for merchants. It aims to do this by:

a. encouraging them to search and switch, or negotiate with their existing provider

b. reducing the obstacles to switching

c. 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

1.4 This specific direction is intended to remedy the feature of concern that POS terminals and POS terminal contracts discourage merchants from searching and switching provider of
card-acquiring services.

1.5 This direction is addressed to 14 specified payment service providers (PSPs).

2 Powers exercised and purpose

2.1 Visa Europe and Mastercard are payment systems designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 (the Act) for the purposes of Part 5 of the Act.

2.2 The PSR makes this direction in accordance with sections 54(1) and (3) (Regulatory and competition functions – directions) of the Act. In accordance with section 54(3)(c), this direction applies to persons of a specified description, all of which are participants in the Visa Europe and Mastercard regulated payment systems.

2.3 In making its decision to use its section 54 powers, the PSR had regard to section 62(2)(a) (Duty to consider exercise of powers under the Competition Act 1998) of the Act.

2.4 The purpose of this direction is to require directed PSPs to ensure, in relation to merchants with an annual card turnover up to £10 million, that merchant contracts which include provision of POS terminals and incur scheduled payments, where that merchant is making use of the directed PSP's card-acquiring services, do not have an initial term in excess of 18 months and thereafter move to a rolling monthly contract.

Direction

NOW the PSR gives the following specific direction to:

Adyen UK Limited

Barclays Bank PLC

Chase Paymentech Europe Limited

Elavon Financial Services DAC

EVO Payments International GmbH, Branch UK

First Data Europe Limited

First Merchant Processing (Ireland) DAC

GPUK LLP

Lloyds Bank plc

PayPal (Europe) Sarl et Cie SCA

Square UK

Stripe Payments UK Ltd

SumUp Payments Limited

Worldpay (UK) Limited

3 General provisions

Scope of this direction

3.1 This direction applies to the 14 directed PSPs named above.

3.2 This direction applies in relation to participation in the Visa Europe and Mastercard regulated payment systems.

3.3 This direction applies in relation to any contract or other arrangement, however named, which:

a. includes the provision of one or more POS terminals

b. specifies a schedule of at least two payments, and

c. is between a merchant with an annual card turnover of up to £10,000,000 which makes use of card-acquiring services operated or provided by a directed PSP, and either:

    1. a directed PSP, or
    2. a third party such as an ISO or leasing company

Requirements for POS terminal contracts

New POS terminal contracts

3.4 In relation to a new relevant merchant terminal contract, a directed PSP must ensure that:

a. if there is an initial minimum term:

    1. it is not longer than 18 months, and
    2. once any initial minimum term is completed (and the contract does not at that point terminate), the contract has a maximum one-month recurring term, with one month's notice on the merchant's side

b. if there is no initial minimum term, after a maximum of 18 months from the date the contract was entered into has passed, the contract is subject to a maximum one-month recurring term, with one month's notice on the merchant side

c. if there are any exit or termination fees these are cost based, transparent, and have been fully explained to merchants before they enter into the contract

3.5 A new relevant merchant contract is a contract that:

a. meets the criteria in paragraph 3.3, and

b. is entered into on or after the date on which this specific direction comes into force

Existing POS terminal contracts

3.6 In relation to an existing relevant merchant contract, a directed PSP must ensure that:

a. once any initial minimum term is completed, the contract has a maximum one month recurring term, with one month's notice on the merchant's side; or

b. where there was no initial minimum term, after the period of a maximum of 18 months from the date the contract was entered into has passed, the contract is subject to a maximum one month recurring term, with one month's notice on the merchant's side

3.7 An existing POS terminal contract is a contract that:

a. meets the criteria in paragraph 3.3, and

b. was entered into before the date on which this specific direction came into force

3.8 A directed PSP must take into account any relevant guidance the PSR publishes.

Third party providers

3.9 Where the directed PSP does not directly contract 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 paragraphs 3.4 to 3.7 of this direction.

3.10 A directed PSP must draw the attention of a relevant provider to any relevant guidance the PSR publishes.

3.11 A relevant provider is any provider of POS terminal equipment which has:

a. a contract which meets the criteria at paragraph 3.3, and

b. a contractual relationship with:

1. a directed PSP, or
2. an ISO with a contractual relationship with a directed PSP, or
3. a payment facilitator which is not a directed PSP, but provides access to the card-acquiring services of a directed PSP

4 Key definitions

4.1 **Act** means the Financial Services (Banking Reform) Act 2013.

4.2 **Card-acquiring services** means services to accept and process card transactions on behalf of a merchant, resulting in a transfer of funds to the merchant.

4.3 **Directed PSPs** means the PSPs to which this specific direction is given.

4.4 **Independent sales organisation (ISO)** means an organisation which sells acquiring services to merchants by contractual agreement with an acquirer.

4.5 **Initial minimum term** means the shortest length of the first term of a contract, and is typically referred to as ‘minimum term’, ‘minimum period’ or ‘initial term’ in POS terminal contracts.

4.6 **Merchant** means an organisation which accepts card payments.

4.7 **Participant** has the meaning given by section 42(2) of the Act.

4.8 **Payment facilitator** means a PSP that contracts with one or more merchants to provide card-acquiring services, but may not have a direct contractual relationship with the operator of a card payment system. A payment facilitator must be registered with the operator of a card payment system by an acquirer with whom it contracts.

4.9 **Payment System** has the meaning given by section 41 of the Act.

4.10 **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of the Act.

4.11 **POS terminal** means an electronic device that a merchant uses to accept a card in a card-present transaction without the need to connect to a smartphone or tablet.

4.12 **POS terminal contract** means any contract or other arrangement as described at paragraph 3.3.

4.13 **PSP** means a payment service provider within the meaning of section 42 of the Act.

4.14 **Regulated payment system** means a payment system designated by the Treasury under section 43 of the Act.

5 Monitoring

5.1 The PSR may from time to time in writing require a directed PSP to provide it with a report on its compliance with:

a. this direction

b. any requirements the PSR makes known in writing to the directed PSP or issues in guidance issued by the PSR

5.2 The PSP must provide the report required under paragraph 5.1 by the date given by the PSR.

5.3 The PSR may from time to time in writing require a directed PSP to provide or produce information about:

a. how the PSP is complying, or proposes to comply, with this direction

b. which the PSR otherwise requires in connection with monitoring compliance with or the effectiveness of this direction

5.4 The PSP must provide the information by the date given by the PSR.

6 Application

6.1 This direction applies to the directed PSPs named above.

7 Commencement and duration

7.1 This specific direction comes into force on 6 January 2023.

7.2 This specific direction shall continue in force until such time as it is varied or revoked by the PSR.

7.3 The PSR will review this direction three years and five years after the date on which it comes into force.

7.4 The PSR may also review this direction at any other time than as provided for in paragraph 7.3.

7.5 The PSR may vary or revoke this direction at any time.

8 Citation

8.1 This specific direction may be cited as Specific Direction 16 (acquirer POS terminal lease extent).

9 Interpretation

9.1 The headings and titles used in this specific direction are for convenience and have no legal effect.

9.2 The Interpretation Act 1978 applies to this specific direction as if it were an Act of Parliament, except where words and expressions are expressly defined.

9.3 References to any statute or statutory provisions must be construed as references to that statute or statutory provision as amended, re-enacted or modified, whether by statute or otherwise.

9.4 In this specific direction, the word 'including' shall mean including without limitation or prejudice to the generality of any description, definition, term or phrase preceding that word, and the word 'include' and its derivatives shall be construed accordingly.

Made on 6 October 2022

Chris Hemsley
Managing Director
Payment Systems Regulator

PUB REF: PS22/2

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