

Annex 2 to final report

Market review of card scheme and processing fees

Bargaining positions of
acquirers and merchants

March 2025

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Note: The places in this document where confidential material has been redacted are marked with a [X].

Annex 2

Bargaining positions of acquirers and merchants

- 2.1** In this annex we analyse evidence on the bargaining position of acquirers and merchants when sourcing core scheme and processing services from Mastercard and Visa. In particular, we examine acquirers' and merchants' ability to negotiate with Mastercard or Visa on the pricing and non-pricing features of the scheme and processing services they purchase.¹ We consider evidence from Mastercard's and Visa's internal documents and from submissions from acquirers and merchants (or merchant associations).
- 2.2** The annex focuses on core scheme and processing services, although in some instances we also refer to optional services. Annex 4 provides a more detailed analysis of the available alternatives to Mastercard's or Visa's optional services.
- 2.3** This annex is structured in four sections, examining:
- our evidence sources used for the analysis
 - the bargaining position of acquirers, based on Mastercard's and Visa's internal documents and on acquirers' submissions
 - the bargaining position of merchants, using evidence from Mastercard's and Visa's internal documents, and from merchants' and acquirers' submissions
 - acquirers' and merchants' views, in response to our interim report, on the relationship between recent price changes and increases in:
 - the quality of scheme and processing services, or
 - innovation by Mastercard and Visa

Evidence sources

- 2.4** The analysis developed in this annex is based on evidence from:
- Mastercard's and Visa's responses to our information requests and their internal documents
 - acquirers' responses to information requests and other submissions acquirers made in the context of this market review
 - merchants' responses to information requests
- 2.5** Our requests for documents were aimed at seeking information on negotiations between schemes and either acquirers or merchants on fees and other terms of core scheme and processing services.

¹ This evidence is relevant to the assessment of the competitive constraints faced by Mastercard and Visa on the acquiring side. Further evidence relevant to such assessment is included in Annexes 1 and 3.

2.6 From Mastercard we asked for any presentations or reports prepared by or for, or received or sent by, any of the [3] 'senior custodians' they had identified between 1 January 2020 and 9 November 2022 which describe the competitive landscape for the provision of scheme and processing services to acquirers. We also asked for any documents produced between 1 September 2020 and 30 September 2022 relating to instances of the five largest UK-based merchants (by value of transactions):

- asking to reverse, fully or partially, proposed or implemented changes to scheme and processing fees
- negotiating those fees
- requesting payments or funding from Mastercard which offset, fully or partially, any increases to those fees

2.7 We asked Visa to provide, among other documents:

- any documents² created between 2017 and 9 November 2022 referring to:
 - the competition Visa faces in the provision of scheme and processing services to acquirers, or
 - alternative suppliers of those services
- any documents referring to how card acquirers reacted following increases in scheme fees in the UK since 1 January 2020
- any documents³ produced between September 2020 and September 2022 relating to instances of acquirers or merchants:
 - asking to reverse, fully or partially, proposed or implemented changes to scheme and processing fees
 - negotiating those fees, or
 - requesting payments or funding from Visa which offset, fully or partially, any increases to those fees

2.8 We engaged with acquirers to gather evidence, including on the extent of acquirers' buyer power with Mastercard and Visa. This engagement involved:

- responses to written information requests to 17 acquirers⁴, accounting for 92% of Mastercard's and Visa's UK transactions (by value) in 2021
- responses to our Terms of Reference, including from acquirers. We received relevant submissions from four acquirers⁵
- calls with three acquirers⁶

2 'Any documents' was defined as including internal company documents such as board papers and management presentations, papers prepared to support decisions by relevant internal committees, strategy documents, meeting slides, notes and minutes, manuals, reports or papers either prepared internally or by third parties, internal research or analysis carried out by Visa staff or external consultants.

3 For the purpose of this question, we also asked for internal or external emails.

4 [3].

5 Global Payments, Lloyds, Revolut and Worldline.

6 [3].

- responses to our working paper on 'Competitive constraints in card payment systems'; we received relevant written submissions from two acquirers⁷, and 15 acquirers provided their views on the paper during a roundtable

2.9 Finally, we sent informal information requests to the merchants with direct relationships to either Mastercard or Visa that the schemes identified as their 'top 10' by transaction value.⁸ We sent the same informal questionnaire to a merchant association. We summarise responses below.

The bargaining position of acquirers

Evidence from Mastercard's and Visa's internal documents

- 2.10** A 2017 Visa strategy document states that [redacted] and explains that, [redacted]. The same document, however, notes that [redacted].⁹
- 2.11** Mastercard's internal documents generally indicate that acquirers have [redacted]. A July 2020 document devoted to acquiring in the UK and Ireland states that Mastercard's 'core revenue drivers' [redacted], meaning that acquirers [redacted]¹⁰, and the [redacted] (emphasis in the original).¹¹
- 2.12** The document does note some cases in which acquirers receive [redacted], but these are often designed [redacted]. Specifically, at the time Mastercard had:
- [redacted]¹²
 - [redacted]¹³
 - [redacted]¹⁴
- 2.13** There are, however, cases in which acquirers obtain [redacted]. For example, a 2020 document shows that [redacted].¹⁵
- 2.14** [redacted]. Documents indicate that [redacted].¹⁶ [redacted]. For example, a 2022 internal document, [redacted], for the UK and Ireland division mentions that [redacted].¹⁷
- 2.15** Internal emails from 2021 [redacted].¹⁸ [redacted].¹⁹ Despite this, another internal Visa document [redacted].²⁰

7 Revolut, and Teya. See [Stakeholder submissions to competitive constraints and approach to profitability \(psr.org.uk\)](https://psr.org.uk)

8 We received responses from [redacted].

9 [redacted].

10 This is consistent with the data discussed in Annex 6.

11 [redacted].

12 [redacted].

13 [redacted].

14 [redacted].

15 [redacted] the documents [redacted] used to evidence [redacted] are not necessarily specific to the UK.

16 For more information on Visa's processing fee rebates to acquirers and an assessment of this evidence, see Annex 3.

17 [redacted].

18 [redacted].

19 [redacted].

20 [redacted].

- 2.16** The weak bargaining position of acquirers also emerges from their responses to a 2022 [redacted] commissioned by Visa.²¹ In particular, [redacted].²² [redacted].²³ [redacted].²⁴
- 2.17** The bargaining position of acquirers that also operate as issuers appears somewhat better, especially on processing fees for on-us transactions, which the acquirer can in theory process in house. We note that, in the UK, [redacted] is both one of the largest acquirers and a very important issuer. It is therefore not surprising that a Visa 2020 internal document explains that [redacted].²⁵
- 2.18** Mastercard's documents indicate that it is willing to negotiate [redacted], and agree some incentives or rebates on [redacted].
- A document from [redacted] shows that, as part of the negotiations for their issuing business, [redacted], arguing that, if Mastercard won [redacted], [redacted] would incur [redacted] acquiring costs, given that [redacted]. Mastercard was [redacted] but proposed [redacted].²⁶ This corresponded to [redacted], lower than [redacted] had asked for, but higher than [redacted].²⁷
 - In [redacted]. Subject to [redacted] reaching [redacted] of the [redacted] for the number of [redacted], Mastercard offered [redacted], a discount of [redacted].²⁸
- 2.19** Incentives can also be provided to firms serving [redacted]. For example, a Mastercard document from April 2020 mentions incentives to [redacted]. This included an investment in the form of [redacted] targeting [redacted] that serve these merchants [redacted].²⁹
- 2.20** We note that outside the UK, acquirers' bargaining power may be different, particularly in relation to processing fees, as alternative processors are available in several countries (see Annex 3). A Mastercard sales, update dated November 2022 and listing [redacted], shows several deals in other European countries whose objective was to obtain [redacted]. In the UK, however, [redacted].³⁰

Acquirers as competitors

- 2.21** Internal documents indicate that [redacted].
- A September 2020 Mastercard Board document notes that some [redacted]. The document states that, with their expansion into [redacted], these acquirers are both partners for Mastercard in reselling services that they do not supply and competitors [redacted]. The document recommends that [redacted].³¹ A similar observation appears in a document from April 2021, which notes that [redacted] and that [redacted].³²
 - A 2017 Visa internal document notes that [redacted].³³

21 [redacted].
22 [redacted].
23 [redacted].
24 [redacted].
25 [redacted].
26 [redacted].
27 [redacted].
28 [redacted].
29 [redacted].
30 [redacted].
31 [redacted].
32 [redacted].
33 [redacted].

- 2.22** The documents, however, do not mention whether this competition on optional services has an impact on the bargaining position of acquirers in relation to core scheme and processing services.

Acquirers' submissions

- 2.23** Generally, acquirers indicated that there are no credible alternatives to Mastercard and Visa in the UK. Nearly every acquirer that responded to our information requests offers their merchants the ability to accept both Mastercard and Visa transactions, and the large majority indicated that all of their merchants require this ability. Many acquirers indicated that acceptance of Mastercard and Visa is equally essential for online/Card Not Present (CNP) transactions. Acquirers also told us that, with the exception of some optional services, there are no credible non-scheme alternatives to the scheme and processing services they purchase from Mastercard and Visa for an acquirer wishing to accept Mastercard- or Visa-branded transactions.
- 2.24** Given the lack of alternatives to Mastercard and Visa's services, acquirers submitted that they have only limited or no buyer power with respect to their relationship with Mastercard and Visa. Acquirers told us that they have limited or no ability to negotiate with Mastercard and Visa by, for example, rejecting price increases, negotiating decreases to prices, or otherwise influencing Mastercard's and Visa's decisions.

Alternatives to providing acceptance of Mastercard- or Visa-branded card payments

- 2.25** Nearly every acquirer told us that they offer their merchants the ability to accept all types of Mastercard-branded and Visa-branded cards for online/ CNP transactions.^{34,35} The only exception was one acquirer, which, at the time of responding to our information request, did not offer acceptance of Visa-branded cards. The acquirer had only been a principal member of Mastercard since 2020 and told us that it aimed to offer acceptance of Visa-branded transactions shortly.³⁶
- 2.26** The majority of acquirers which provide acceptance for both Mastercard and Visa also indicated that all of their merchants accept both Mastercard-branded and Visa-branded card transactions for online/CNP transactions.³⁷

34 [34] Do you currently offer merchants card acquiring services for all types of Mastercard-branded cards and/or Visa-branded cards for online/CNP transactions including the UK-EEA cross-border transactions? (a) If yes, what proportion of your merchant customers required these services for both Visa and Mastercard for each of the years 2018-2022. (b) For those who require card-acquiring services for only one of the two, please explain whether you think this is because they acquire services for the other one from another acquirer or because they do not use both systems. [34].

35 Stakeholder response to PSR information request dated 11 January 2023. [35].

36 Stakeholder response to PSR information request dated 11 January 2023. [36].

37 Stakeholder response to PSR information request dated 11 January 2023. [37].

2.27 Some relevant comments from the remaining acquirers:

- One told us that merchants typically request both Mastercard and Visa, noting that these along with ‘customary local payment options are considered a bare minimum for most merchants’.³⁸
- One [redacted] acquirer told us that sometimes merchants with risky businesses will not fulfil the requirements set by one of the major card schemes and would therefore be unable to accept payments from cards branded by that scheme.³⁹
- One acquirer told us that the only circumstance where a merchant would request acceptance of only one of Mastercard or Visa from an acquirer would be if they used multiple acquirers and could source acceptance of the other/both from their other acquirer(s).^{40,41}

2.28 We also asked acquirers if there are any payment methods for online/CNP transactions for which they necessarily have to offer acquiring services because otherwise they would lose/fail to acquire potential customers.⁴²

2.29 Nearly every acquirer considered that they had to offer acquiring services for both Mastercard and Visa payments.⁴³ One of these acquirers explained that ‘not offering Visa or Mastercard would entail critical and existential losses’ for its business.⁴⁴ Another told us that Visa and Mastercard are the ‘bare minimum payment methods’ and that it would ‘be unthinkable to attempt to compete with even just one of the two’.⁴⁵ Only one acquirer felt that there are no such payment methods.⁴⁶

2.30 Moreover, while we did not ask acquirers in our written requests whether Mastercard and Visa must be offered for all transaction types, several acquirers told us that the schemes’ services are ‘must-take’ for merchants more generally⁴⁷, and that acquirers must therefore offer acceptance of Mastercard- and Visa-branded transactions.⁴⁸

38 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

39 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

40 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

41 Other acquirers noted in their responses that while their merchants all request both Mastercard and Visa, in theory a merchant may request acceptance of only Mastercard or Visa transactions if they were dual-acquired. Stakeholder response to PSR information request dated 11 January 2023. [redacted].

42 [redacted] Are there any cards/payment methods for online/CNP transactions, including UK-EEA cross-border transactions, for which you necessarily have to offer acquiring services because otherwise you would lose/fail to acquire potential customers (i.e. merchants)? If any, please mention which ones and explain why. [redacted].

43 Some of these acquirers also mentioned further card schemes or payment methods as something they have to offer. Stakeholder response to PSR information request dated 11 January 2023 [redacted]; stakeholder response to PSR information request dated 8 February 2024. [redacted].

44 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

45 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

46 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

47 Call with stakeholders [redacted]; stakeholder response to our Terms of Reference [redacted]; stakeholder responses to MR22/1.4 (23 February 2023). [redacted].

48 Call with stakeholder [redacted]; stakeholder responses to MR22/1.4 (23 February 2023). [redacted].

Acquirer responses to scheme and processing fee increases

2.31 We asked acquirers if they had responded, or considered responding, to changes to scheme and processing fees in the UK in the last five years by switching to an alternative provider⁴⁹:

- The large majority of acquirers replied that they had not,⁵⁰ with roughly half of these explaining that they are unable to do so given there are no alternatives to Mastercard and Visa in the UK.^{51, 52}
- One acquirer told us that it processed on-us⁵³ transactions internally, but that this arrangement was expected to be discontinued in 2023, at which point the transactions were going to be processed through Mastercard's or Visa's networks.⁵⁴ The acquirer told us that the decision was motivated by the separate process required and associated cost when only a small proportion of transactions were processed in this way.⁵⁵

2.32 We also asked acquirers if they had responded, or considered responding, to changes in scheme and processing fees in the last five years by offering merchants alternative payment methods that do not involve the card payment systems operators:

- The majority of respondents said that they currently offer, or had considered offering, such payment methods. However, this decision was not solely driven by increases in scheme and processing fees, or they did not clearly link that decision to increases in scheme and processing fees.⁵⁶
- Two further acquirers said that they offer such payment methods but that the decision to do so was not driven by increases in scheme and processing fees.⁵⁷

49 [redacted] In the last five years has your company responded (or considered responding) to changes in scheme and processing fee levels: (a) in the UK by doing any of the following: (i) Switching to alternative providers or providing the service in-house (for example, switching to a third-party provider of anti-fraud services)? If so, please describe the type of service where the fee was changed and your company's response. (ii) Offering merchants alternative payment methods that do not involve the card payment systems operators (for example, account-to-account transfers or direct debits)? If so, please describe the alternative payment systems considered, which one was selected and which were not, how you came to your decision and the merchants who took up this offer. [redacted].

50 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

51 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

52 The two remaining acquirers submitted the following: one submitted that it had not considered switching (stakeholder response to PSR information request dated 11 January 2023 [redacted]); one submitted that the question was not applicable (stakeholder response to PSR information request dated 11 January 2023 [redacted]).

53 'On-us' transactions are those where the same company operates both as acquirer and as issuer.

54 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

55 Call with stakeholder [redacted].

56 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

57 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

Alternatives to scheme and processing services purchased from Mastercard and Visa

- 2.33** Our information requests asked acquirers to identify the Mastercard and Visa scheme and processing services for which alternatives are available, and those for which they are not available, for an acquirer wishing to accept Mastercard- and Visa- branded transactions.⁵⁸
- 2.34** Acquirers' responses to this question were very similar or identical as regards the services provided by Mastercard and Visa. Overall, acquirers indicated that there are no close alternatives to the scheme and processing services they purchase from Mastercard and Visa, with the exception of some processing services and some other optional services which can realistically be sourced elsewhere.
- 2.35** The majority of acquirers stated that there are no credible alternatives to the scheme and processing services provided by Mastercard and Visa in the UK.⁵⁹
- 2.36** Some acquirers acknowledged that there are theoretical, or actual, alternatives to the processing services provided by Mastercard and Visa. However, each of these acquirers noted limitations to the proposed alternatives. We discuss this in greater detail in Annex 3. A few acquirers were able to identify alternatives for optional services. However, in most of these cases these alternatives, too, were limited in some way. In particular, one acquirer told us that it could use its own reporting, or that of its platform service provider, as an alternative to the reporting services it purchases from Mastercard and Visa.⁶⁰
- 2.37** Separately, one acquirer told us that Mastercard and Visa 'give preferential treatment to their services over those provided by alternative providers'. The acquirer submitted that the schemes do this by:
- non-cooperation, including by making unsubscribing from optional services difficult and charging termination fees
 - 'cross-selling optional services to solve issues that their services create'
 - charging non-compliance fees for use of non-scheme services, in place of a service provided by the schemes⁶¹
- 2.38** Our analysis of competition for optional services to acquirers is developed more fully in Annex 4.

58 [redacted] We want to understand the alternatives available for a card acquirer that wishes to offer UK merchants the ability to accept Mastercard-branded cards but wants to use non-Mastercard providers where possible. For such a card acquirer, are there alternative providers that can be credibly used instead of purchasing Mastercard scheme services or Mastercard processing services? Please identify those scheme and processing services for which you consider that: (a) There are credible alternatives to using Mastercard. For those scheme and processing services, please list the alternative providers (specify if any of them have entered the provision of those services since 2017) and any company you are aware that plans to enter. Please also specify which of those service providers you have considered as your potential suppliers and whether you are buying services from them; and (b) There are no credible alternatives to using Mastercard. For those scheme and processing services, please explain why. For example, would the characteristics of services from alternative providers fail to meet Mastercard's requirements? Would there be significant additional costs involved integrating the alternative service with the rest of the services you buy from Mastercard that make them uneconomical? [redacted] The corresponding question in relation to Visa. [redacted].

59 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

60 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

61 Stakeholder response to MR22/1.4 (23 February 2023). [redacted].

Acquirers' buyer power

2.39 We asked acquirers to describe their relationships with Mastercard and Visa. Our questions included how they purchase scheme and processing services, whether they negotiate the terms of supply, and how often they meet with the card schemes⁶²:

- Several of the acquirers that responded told us they had never negotiated the terms of supply with the card schemes during the last five years or that they pay the schemes' standard pricing.⁶³ One further acquirer told us that fees are 'generally non-negotiable' in the context of terms of supply negotiations.⁶⁴ One acquirer, while submitting that scheme and processing fees are not negotiable by the acquirers with the schemes, told us that it negotiated framework terms of supply with Visa and Mastercard and that it successfully challenged Mastercard to remove a mandate requiring UK merchants to automatically opt-in to Mastercard instalments.⁶⁵ Although several acquirers said that they have negotiated with the card schemes⁶⁶, some indicated that the scope to do so can be limited – for instance, to optional services.⁶⁷
- The majority of acquirers described having regular interactions with both card schemes.^{68,69} Several large acquirers mentioned frequent, sometimes weekly engagement with both card schemes, on a range of day-to-day operational issues.⁷⁰ However, responses indicate that these interactions do not tend to involve significant discussions or negotiations on the terms of service and fees for core or mandatory services.

2.40 We also asked acquirers if, in the last five years, they had been able to:

- reject changes to scheme and processing fee levels
- negotiate reduced increases or delayed application of increases
- obtain payments/funding from the card schemes to offset increased fees
- mitigate fee increases in any other way⁷¹

62 [redacted] Please describe the nature of your relationship with Mastercard. In your description please include: (d) How the scheme and processing services are purchased. In particular, do you negotiate terms of supply (including fees) with Mastercard, or do you accept Mastercard's terms of supply? How frequently do you re-negotiate and/or face changes to the terms of supply?; (e) A description of any other regular interactions and of the types of one-off interactions you may have with Mastercard, apart from any terms of supply negotiations described in part (d). For example, do you provide any feedback to Mastercard in the normal course of business? [redacted] The corresponding question in relation to Visa. [redacted].

63 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

64 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

65 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

66 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

67 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

68 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

69 One of these acquirers [redacted] told us during a call that it meets with its account manager for the schemes every two weeks to: ask operational questions; ask about new initiatives the acquirer is working on; and build relationships.

70 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

71 [redacted] In the last five years have you been able to: (a) Reject changes to scheme or processing fee levels? (b) Negotiate reduced increases in scheme or processing fee levels, or delay the application of the increased fees? (c) Obtain payments or funding from Mastercard or Visa which offset any increases? (d) Request and receive more information about the reasons for changes? (e) Mitigate the impact of fee changes on your business in other ways (e.g., switching to another supplier for some services)?

If your ability to act varies between (i) Visa and Mastercard, and/or (ii) between scheme and processing fees, please explain how it varies. Please provide reasons for your responses.

[redacted].

- 2.41** We also asked acquirers whether these abilities differed between Mastercard and Visa.
- 2.42** Every acquirer that responded told us they had been unable to reject changes to fee levels in the past five years⁷², although two noted that they can choose whether or not to purchase optional services.⁷³ This is consistent with the submissions already discussed, indicating that there is relatively little scope for most acquirers to negotiate.
- 2.43** The large majority of respondents also told us that they have been unable to negotiate reduced fees in the past five years.⁷⁴ Some respondents have occasionally been able to arrange for a fee increase to be deferred.^{75,76} For example, sometimes one or both card schemes agree to delay charging a certain behavioural fee to allow the acquirer to make relevant changes.⁷⁷ However, most acquirers indicated that such delays were only granted infrequently.⁷⁸
- 2.44** Just under two-thirds of acquirers that responded said they had not been able to obtain funding or payments from the scheme operators to offset fee increases.^{79,80} Conversely, just under a third of acquirers indicated that they have negotiated or been offered discounts, rebates or similar payments to offset fee increases⁸¹, for instance in response to hitting performance targets.⁸² Two acquirers told us that they have commercial agreements with the schemes under which they receive funds, but noted that these did not relate to offsetting any fee increases.⁸³
- 2.45** Around two-thirds of acquirers stated they had not been able to mitigate fee increases in any other way.⁸⁴ Three acquirers indicated they had some limited scope to switch to alternative providers of processing or optional services to mitigate fee increases⁸⁵, including by providing services in-house.⁸⁶ One acquirer had modified its setup to avoid activating a fee.⁸⁷

72 Stakeholder response to PSR information request dated 11 January 2023. [3-].

73 Stakeholder response to PSR information request dated 11 January 2023. [3-].

74 Stakeholder response to PSR information request dated 11 January 2023. [3-].

75 Stakeholder response to PSR information request dated 11 January 2023. [3-].

76 One acquirer [3-] noted that it had successfully negotiated a [3-] to Mastercard's instalment service mandate. Note that a separate acquirer [3-] made similar submissions in response to PSR information request dated 11 January 2023 [3-], as summarised in paragraph 2.39.

77 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

78 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

79 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

80 Similarly, all acquirers that responded to this question indicated that their commercial agreements with Visa and Mastercard do not provide the possibility for incentive or support payments to be adjusted in the event of increases in scheme and processing fees. One acquirer, [3-] that stated it does receive rebates, explained that they are negotiated in advance and are not adjusted when fees change.

81 Stakeholder responses to PSR information request dated 11 January 2023. [3-]. One of these acquirers [3-] gave an example of a rebate that had been offered to all acquirers in relation to a new scheme fee to allow more preparation time.

82 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

83 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

84 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

85 Stakeholder responses to PSR information request dated 11 January 2023. [3-]. One of these [3-] said there is limited scope to use other suppliers for most services and another [3-] told us that there are no alternatives for core services purchased from the schemes. The third acquirer [3-] submitted that the only available alternatives to sourcing processing services from the schemes would add complexity and costs.

86 Stakeholder response to PSR information request dated 11 January 2023. [3-].

87 Stakeholder response to PSR information request dated 11 January 2023. [3-].

- 2.46** Two acquirers told us they could only mitigate the impact by adjusting their own prices, or said that they did not adopt mitigating measures to address price increases as (where possible and applicable) they pass them on in full to their merchants.⁸⁸
- 2.47** Only four acquirers expressed a view as to whether their ability to reject or negotiate fees differed with respect to Mastercard and Visa. Three of these⁸⁹ said that their experiences with Mastercard and Visa are very similar.⁹⁰
- 2.48** In response to our working paper on competitive constraints, one acquirer said that only the largest acquirers and merchants can negotiate with Mastercard and Visa.⁹¹ The same acquirer told us during a call that Mastercard and Visa may be willing to negotiate with ‘acquirer-side companies’ (that is, acquirers and merchants) if they give the schemes access to a market segment that the schemes did not previously reach. The acquirer mentioned Amazon as an example of a merchant that could facilitate access to new transaction flows.⁹² Another acquirer also noted Amazon’s negotiations with Visa, emphasising that Amazon is ‘forecast to become the UK’s largest retailer by 2025’ and pointing out that other UK-based businesses are less able to enter into a similar ‘dispute’.⁹³
- 2.49** One acquirer told us that acquirers that also have an issuing business can leverage this in negotiations with the card schemes.⁹⁴
- 2.50** We also asked acquirers if, in the last five years, they had been able to influence Mastercard’s and Visa’s decisions on changes to scheme and processing services, such as:
- changes to existing services, fee levels and structures
 - the introduction of new services
 - the fee levels associated with the new services
 - the elimination of existing services
- 2.51** We again asked if there are any differences between Mastercard and Visa in these matters:⁹⁵
- Nine out of 17 acquirers responding to our information request told us they had been unable to influence the card schemes’ decisions in any of these ways.⁹⁶ Two further acquirers told us that they have very limited ability to do so, with one expressing that its challenges make ‘very little difference’⁹⁷ and the other that its ability to do so is ‘extremely limited’.⁹⁸

88 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

89 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

90 The remaining acquirer [3-] noted that it generally finds it harder to obtain timely and comprehensive clarifications from Mastercard.

91 Stakeholder response to MR22/1.4 (23 February 2023). [3-].

92 Call with stakeholder. [3-].

93 Stakeholder response to our Terms of Reference. [3-].

94 Stakeholder response to MR22/1.4 (23 February 2023). [3-].

95 [3-] In the last five years have you been able to influence the decisions of Mastercard and Visa regarding changes to scheme and processing services? This may include influencing: (a) changes to existing services, fee levels and structures; (b) the introduction of new services; (c) the fee levels associated with those new services; (d) the elimination of existing services.

If your ability to influence varies (i) between Visa and Mastercard, and/or (ii) between scheme and processing fees, please explain how it varies. Please provide reasons for your responses. [3-].

96 Stakeholder responses to PSR information request dated 11 January 2023. [3-].

97 Stakeholder response to PSR information request dated 11 January 2023. [3-].

98 Stakeholder response to PSR information request dated 11 January 2023. [3-].

- The remaining six acquirers explained that they may have influenced such decisions in limited instances⁹⁹, but this did not extend to influencing fee levels except for certain value-added services.¹⁰⁰ Two of the six noted that acquirers have greater influence when several push back together.¹⁰¹ One of these acquirers, however, told us that it is not aware of any examples of cases in which lobbying from industry participants resulted in the card schemes revising fees associated with new services in the UK, while there have been examples of industry lobbying being successful in delaying new fees to a certain extent.¹⁰²
- Only five acquirers commented on their relative ability to influence Visa's versus Mastercard's decisions. Four of these told us their experiences were similar with both.¹⁰³ One felt that, for engagement on issues beyond fee levels, Visa is more receptive to feedback on non-fee issues, such as new services and products, while Mastercard is less engaged at the early stages of product development.¹⁰⁴

2.52 An additional acquirer told us during a call that it sometimes chooses not to challenge the schemes' fee increases as it feels its negotiating position is too weak to be successful. The same acquirer also told us that disagreements with the schemes can have a negative impact on the service quality it provides to its merchants. The acquirer gave the example of having challenged a card scheme's decision on its assessment of the acquirer's risk profile. It told us that doing so had 'soured' the relationship, and adversely affected the acquirer's ability to serve its customers, until it had conceded.¹⁰⁵

2.53 We also asked acquirers how, when negotiating a commercial supply agreement with Mastercard or Visa, they take into account possible future changes to scheme and processing fees.¹⁰⁶ The large majority of respondents submitted that no such accommodations exist.¹⁰⁷ Many again told us that they are unable to negotiate with Mastercard and Visa.¹⁰⁸ One further acquirer noted that some fees are 'tiered' but generally there are no rebates or discounts.^{109,110}

2.54 However, one acquirer, [X], explained that where possible, it tries to agree 'caps which provide a maximum amount by which fees can increase', as well as financial and non-financial incentives.¹¹¹

99 Stakeholder responses to PSR information request dated 11 January 2023. [X].

100 One acquirer [X] noted that has been able to negotiate a reduction in a proposed mandatory scheme fee but indicated this was an exception. Stakeholder responses to PSR information request dated 11 January 2023. [X].

101 Stakeholder responses to PSR information request dated 11 January 2023. [X].

102 Stakeholder response to PSR information request dated 8 February 2024. [X].

103 Stakeholder responses to PSR information request dated 11 January 2023. [X].

104 Stakeholder response to PSR information request dated 11 January 2023. [X].

105 Call with stakeholder [X]. We have not verified the acquirer's claim.

106 [X] When you negotiate a commercial supply agreement with Visa and/or Mastercard, how do you take into account the possibility of potential future changes to scheme and processing fees? Does the commercial agreement provide the possibility for incentive or support payments to be adjusted in the event of increases in scheme and processing fees? [X].

107 Stakeholder responses to PSR information request dated 11 January 2023. [X].

108 Stakeholder responses to PSR information request dated 11 January 2023. [X].

109 Stakeholder response to PSR information request dated 11 January 2023. [X].

110 One other acquirer [X] noted that it has no recent experience of negotiations relating to processing.

111 Stakeholder response to PSR information request dated 11 January 2023. [X].

2.55 Finally, we asked acquirers if the cumulative changes to scheme and processing fees introduced since 2017 have led to any renegotiations with Mastercard and Visa.¹¹² Every acquirer responding to the question told us that there have been no renegotiations¹¹³, Some went into further detail:

- One explained that its enquiries regarding rebates have been declined by both Mastercard and Visa, and while other support mechanisms have been discussed, nothing has been agreed.¹¹⁴
- Another acquirer told us: 'Commercial settlements with Visa and Mastercard are focused on specific new product development and commercialisation efforts, and we do not understand them to be related to scheme or processing fees.'¹¹⁵

The bargaining position of merchants

2.56 In a four-party system, merchants negotiate fees with acquirers, rather than with the schemes. Consistently, [redacted].¹¹⁶ There are, however, some instances where the schemes do deal directly with merchants:

- Mastercard told us it works with merchants on an operational level to promote card payments and help merchants adopt the latest technology.
- Mastercard said that it has a strong incentive to ensure the widespread adoption of technology that underpins its standards by working with a selected number of large, and often market-leading, merchants.¹¹⁷
- Visa told us [redacted].¹¹⁸

2.57 This section analyses the evidence on merchants' bargaining position in relation to mandatory and core processing fees. We consider both Mastercard's and Visa's internal documents and merchants' submissions. We also present the evidence on merchants' ability to steer their customers towards specific alternative payment methods. The final sub-section presents evidence on merchants' submissions in relation to recent changes in the fees charged for scheme and processing services, which is more relevant to our assessment of outcomes in Chapter 6 of the final report, but is set out in this annex.

Evidence from Mastercard and Visa internal documents

2.58 Several of the documents we reviewed discuss Mastercard's and Visa's relationship with merchants. Many focus on the opportunities to sell value-added services to merchants. In this section, we focus on the documents that touch on the merchants' bargaining position.

112 [redacted] Have the cumulative changes to scheme and processing fees introduced since 2017 led to any renegotiations about, or changes to, the overall commercial settlement you have with the schemes, including the size of any rebates or support that Visa and/or Mastercard pay to you? Please provide details.

113 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

114 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

115 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

116 Mastercard response to PSR questions dated 9 November 2022 [redacted]; Visa response to PSR questions dated 9 November 2022. [redacted].

117 Mastercard response to PSR questions dated 9 November 2022. [redacted].

118 Visa response to PSR questions dated 9 November 2022. [redacted].

2.59 Overall, the evidence indicates that only a few large or strategic merchants have a sufficiently strong bargaining position to be able to negotiate discounts or rebates on mandatory or core processing fees. Merchants can also obtain discounts or other incentives when they adopt services that Mastercard or Visa want to promote, especially when the schemes consider increasing adoption to be strategically important.

Reasons for partnering with merchants

2.60 Internal documents [redacted].

2.61 Mastercard's merchant strategy is discussed in an internal document dated September 2020. The document stresses it is [redacted], claiming that [redacted].¹¹⁹ It also mentions, among the 'emerging headwinds', [redacted].¹²⁰ Finally, it outlines Mastercard's 'strategic imperatives':

- [redacted].
- [redacted].
- [redacted].¹²¹

2.62 This document highlights two important aspects of Mastercard's relationship with merchants for certain, specific reasons:

- First, Mastercard's strategy is aimed at being [redacted] to merchants, through [redacted]. Related to this, a [redacted] presentation on Mastercard's objectives for services in Europe in 2022 emphasises that [redacted].¹²²
- Second, [redacted]. The greater the market concentration among merchants, the greater the potential impact on Mastercard's revenue.

2.63 Visa documents show [redacted]. A 2022 internal document [redacted].¹²³ A 2017 internal document explains that Visa should [redacted]:¹²⁴

- [redacted].¹²⁵
- [redacted].
- [redacted].
- [redacted].
- [redacted].

2.64 The second of these reasons indicates that large merchants could choose to impose some degree of competitive constraint on Visa by favouring acceptance of alternative payment methods. We discuss this in greater detail in Annex 1.

119 [redacted].

120 [redacted].

121 [redacted].

122 [redacted].

123 [redacted].

124 [redacted].

125 We note that this reason is more likely to apply in countries where alternative processors are available; this is not the case in the UK (see Annex 3).

Large or strategic merchants

- 2.65** The documents indicate that [X]. For example, a 2022 internal document focusing on the UK and Ireland explains that [X].¹²⁶
- 2.66** [X] has a unique position as a merchant, as emerges from a Mastercard document dated [X]. The agreement, originally concluded [X], gave [X].¹²⁷ The document shows that [X].¹²⁸ The document notes [X] bargaining position, noting that [X]. However, the document also mentions that [X].¹²⁹
- 2.67** [X]. We did not receive documents on [X]. However, other documents indicate that Visa was concerned about [X]:
- A 2022 UK internal document estimates [X].¹³⁰ However, a separate 2022 internal document notes that [X].¹³¹
 - Responses to a 2022 [X] commissioned by Visa indicates that [X].¹³²
 - A 2022 internal document [X] shows that Visa [X].¹³³ This could affect [X].¹³⁴
- 2.68** [X]. For example:
- Documents show that [X]¹³⁵, [X].¹³⁶ [X].
 - [X].¹³⁷ We note that Visa might have been [X].¹³⁸
- 2.69** [X]¹³⁹ – [X]. A 2019 internal document shows Visa offering [X].¹⁴⁰ A [X] document shows that [X], although we note that [X] and that [X].¹⁴¹
- 2.70** Finally, merchants who sponsor co-branded cards can obtain further incentives outside of the co-branding deal. A Mastercard document from November 2020 observes that [X]. It also reports that Mastercard’s ‘Market Development and Digital Partnerships team are developing [X].¹⁴²

126 [X].

127 [X].

128 [X].

129 [X].

130 [X].

131 [X].

132 [X].

133 [X].

134 [X].

135 [X].

136 [X].

137 [X]. However, [X].

138 [X].

139 [X].

140 [X].

141 [X].

142 [X].

Negotiations to promote adoption of specific services

- 2.71** Mastercard and Visa sometimes provide [X]. A 2019 internal document shows that [X].¹⁴³
- 2.72** We consider that the products whose adoption is incentivised can be of strategic importance to Mastercard and Visa, or characterised by the existence of network externality, making it sensible to encourage early adopters on the merchant side. One such case is Click to Pay (C2P), a product that Mastercard sees as key to its overall strategy, and whose success requires implementation from both merchants and issuers. A document describes this as a [X]. Therefore, Mastercard notes that [X].¹⁴⁴ Similarly, a presentation [X].¹⁴⁵
- 2.73** In an internal document from June 2022, as part of its plan to accelerate adoption of [X], Mastercard envisions [X].¹⁴⁶ Another document for the same board meeting provides a more detailed description of these benefits:
- [X].
 - [X].¹⁴⁷
- 2.74** The document also mentions [X]¹⁴⁸, although it suggests the use of both [X].¹⁴⁹
- 2.75** A 2022 document shows that Visa was working on at least [X], although the document does not state [X].¹⁵⁰
- 2.76** Another case in which the documents show [X] is that of [X], and in particular its [X]. A March 2022 document discussing Mastercard's plans on [X] in Europe indicates that Mastercard [X] in relation to the adoption of [X]¹⁵¹ [X].¹⁵²
- 2.77** The incentives offered by Mastercard [X]. A 2020 document reports that Mastercard had signed a new business agreement with [X], with the latter committing to launch [X] in the UK [X]. The document notes that [X] represents [X] and its adoption of [X] could be a 'tipping point' towards Mastercard's goal of [X].¹⁵³ Another document provides more detail: Mastercard agreed to provide [X].¹⁵⁴

143 [X].

144 [X].

145 [X].

146 [X].

147 [X].

148 [X].

149 [X].

150 [X].

151 [X].

152 [X].

153 [X].

154 [X].

2.78 Other services whose adoption might be incentivised are [redacted]. A 2022 document shows that Visa offered [redacted]¹⁵⁵, [redacted].

2.79 Finally, several documents refer to [redacted].

- A 2019 internal document on [redacted].¹⁵⁶
- A 2019 Visa internal document indicates that [redacted].¹⁵⁷ In response, [redacted].¹⁵⁸

Feedback from merchants

2.80 An internal document, [redacted].¹⁵⁹ A 2022 internal document ([redacted]) shows that [redacted].¹⁶⁰ However, the document goes on to note that [redacted].¹⁶¹ Some of the merchants [redacted].¹⁶² However, merchants also stated that [redacted].

2.81 A 2021 external report for Visa [redacted] reports that [redacted].¹⁶³

2.82 [redacted], some large merchants also expressed [redacted]. In particular, [redacted].¹⁶⁴

Merchants' submissions

2.83 The merchants we sent our information requests to are not representative of the overall merchant population in the UK, as we selected from the largest merchants with a direct relationship with either Mastercard or Visa. Nearly all the merchants that responded to our information request have a direct relationship with both schemes.^{165,166} These merchants described regular meetings with the schemes, often on a weekly or monthly basis. Some also hold formal contracts with one or both of the schemes. This includes a few merchants that hold incentive contracts or processing rebates with Visa¹⁶⁷; two that receive value-in-kind services, such as consulting from Visa and/or Mastercard¹⁶⁸; and one that purchases value-added services such as card-on-file tokenisation from both.¹⁶⁹

155 [redacted].

156 [redacted]. The document notes that [redacted]. The document also notes that [redacted].

157 [redacted].

158 [redacted].

159 [redacted].

160 [redacted].

161 [redacted].

162 [redacted].

163 [redacted].

164 [redacted].

165 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

166 One merchant [redacted] that responded to our information request said that it only has direct contact with Visa, which is due to the Merchant Incentive Agreement that the merchant holds with Visa. The merchant said that it does not have a similar agreement with Mastercard nor any other kind of direct contact.

167 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

168 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

169 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

- 2.84** We asked merchants if, in the last five years, they had changed, or considered changing, their acceptance of some or all types of Mastercard- and Visa- branded cards. Most merchants that responded to our information request indicated they had not.¹⁷⁰ One merchant stated that it had considered dropping some card products, but was unable to do so because of the ‘Honour all cards’ rule.¹⁷¹ Only two merchants indicated that they had made changes to the type of cards they accept by no longer supporting credit cards¹⁷² or personal credit cards.¹⁷³ We note, however, that the nature of this latter merchant – [redacted] – implies that it is not subject to competition and may have more freedom over the payment methods it accepts.
- 2.85** Nearly all of the merchants we received responses from indicated that they do not pay fees directly to the schemes, but that their acquirers pass fees on to them.¹⁷⁴ One merchant said that it is charged directly for the value-added services it purchases from the schemes.¹⁷⁵
- 2.86** Merchants generally indicated that their contracts with acquirers allow for scheme fee changes imposed by the schemes to be passed on to them by their acquirers and are not subject to negotiation.¹⁷⁶ Merchants also told us that the cumulative changes to the scheme and processing elements of the merchant service charge have not led to wider negotiations or changes to the commercial relationships they hold with their acquirers.¹⁷⁷
- 2.87** Despite being among the largest UK merchants, none of the respondents to our information requests had been able to reject changes to scheme or processing fees.¹⁷⁸ None had been able to negotiate reduced increases to scheme or processing fees, or to delay their implementation.¹⁷⁹ One merchant told us that [redacted].¹⁸⁰
- 2.88** Most merchants had not managed to mitigate the impact of fee changes on their businesses in other ways.¹⁸¹ Two merchants explained that they could not do so as there were no viable alternative suppliers.¹⁸² Another said it had mitigated the impact of fee changes by changing the optional services they bought and removing the ability to pay with a personal credit card.¹⁸³ As above, we note that the nature of this latter merchant implies that it is not subject to competition and may have more freedom over the payment methods it accepts.

170 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

171 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

172 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

173 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

174 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

175 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

176 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

177 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

178 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

179 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

180 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

181 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

182 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

183 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

- 2.89** We also asked merchants if, in the last five years, they had considered responding to changes in Mastercard and Visa scheme and processing fee levels by:
- steering transaction volumes from Mastercard-branded cards to Visa-branded cards, or vice versa
 - adding other payment types, switching to providers of scheme or processing services other than Mastercard or Visa, or providing the services in-house
- 2.90** None of the merchants responding to information requests had tried to steer volumes from Mastercard to Visa or vice versa.¹⁸⁴ A few told us that they are unable to do so.¹⁸⁵ One explained it would add complexity to the customer checkout process.¹⁸⁶ Another merchant told us it had considered doing so, but had not implemented any measures at the time of response.¹⁸⁷ Again, we note that the nature of this latter merchant may give it greater freedom over the payment methods it accepts.
- 2.91** None of the merchants responding to our information requests had responded to fee changes by trying to move to a different payment method.¹⁸⁸ One merchant explained that in its view ‘[t]here is currently no technical, practical or viable alternative payment type to Visa and Mastercard available in the UK that [the merchant] feel[s] is appropriate to offer to [its] customers’.¹⁸⁹

Merchants’ ability to steer customers

- 2.92** Merchants could, at least in principle, have a stronger bargaining position with the card schemes if they were able to steer their customers towards alternative payment methods, or could credibly threaten to do so. This would impose greater competitive pressure on Mastercard and Visa at the point of sale.
- 2.93** Merchants’ ability to steer customers to alternative payment methods depends, among other things, on the availability of such methods. This is analysed in Annex 1.
- 2.94** We asked merchants about their ability to steer customers. Further evidence on this point came from acquirers’ submissions and from Visa’s internal documents.
- 2.95** Visa submitted that there is emerging evidence of the role that merchants can play in influencing consumer behaviour. For example, initial research carried out for Visa into the top 50 UK e-commerce websites indicates that alternatives to card-based payments, such as PayPal, were offered in more than 80% of cases. In addition, the research found more than 40% of merchants advertised a particular accepted form of payment in advance of presenting the full range of accepted options at checkout, and in 95% of such cases, the advertised solution was a non-card solution.¹⁹⁰

184 Stakeholder responses to PSR information request dated 11 January 2023. [3].

185 Stakeholder responses to PSR information request dated 11 January 2023. [3].

186 Stakeholder response to PSR information request dated 11 January 2023. [3].

187 Stakeholder response to PSR information request dated 11 January 2023. [3].

188 Stakeholder responses to PSR information request dated 11 January 2023. [3].

189 Stakeholder response to PSR information request dated 11 January 2023. [3].

190 Visa response to MR22/1.4 (23 February 2023). [3].

- 2.96** Visa also submitted evidence of successful customer steering by Revolut. Visa submitted that, in 2021, Revolut introduced a ‘top up by bank transfer’ feature, which it lists as the ‘recommended’ funding option over card. Visa told us that its data indicates that, [redacted].¹⁹¹
- 2.97** Evidence from merchants’ submissions indicates that, although many merchants do not steer customers, steering does sometimes occur. However, the choice of payment methods towards which to steer customers is motivated more by the desire to reduce ‘friction’ and provide customers with a better paying experience (and consequently improve conversion rates), rather than by cost considerations.
- 2.98** Most merchants that responded to our information requests told us that they do not steer their customers towards certain payment methods.^{192, 193} One of these merchants said that it would be ‘counter-intuitive’ for it to steer customers to payment methods that are ‘less prevalent or potentially less convenient’ than Mastercard and Visa, due to the ‘prevalence’ of Mastercard and Visa and the merchant’s preference to ‘make life as easy as possible for our customers’.¹⁹⁴
- 2.99** One merchant explained that it sometimes does experiment with presenting ‘lower friction payment methods’ at the top of the checkout page.¹⁹⁵ Another said that it continues to ‘evaluate different design options to recommend certain payment methods that provide the best payment experience for [its] customers’.¹⁹⁶
- 2.100** A few merchants told us that they have steered their customers towards particular payment methods:
- One merchant said it encourages the use of ‘Mastercard credit cards via a banking partnership’ by offering rewards to customers paying with its cards. The same merchant said that it adjusts its website to encourage use of a specific payment method, ‘dependent on [strong customer authentication] and personalisation algorithms’.¹⁹⁷
 - One merchant has run ‘awareness campaigns via short-term checkout banners’ to raise awareness of Apple Pay and Google Pay.¹⁹⁸ We note that card rails are used for all transactions made using these methods.

191 Visa response to MR22/1.9 (21 May 2024), Technical Annex 1, paragraph 1.12.

192 Stakeholder responses to PSR information request dated 11 January 2023. [redacted].

193 [redacted] Do you steer consumers towards certain payment methods? For example, you may be able to: Encourage customers to pay with cash (for card-present (CP) transactions) or bank transfer (for online/e-commerce transactions), rather than cards; Encourage customers to pay certain card brands rather than others or with debit cards, rather than credit cards; Adjust your website (i.e. checkout page/process) to encourage using a specific card brand or payment method. If applicable, please describe: a) the cards / payment methods which you encourage consumers to use; b) how successful you are in doing so; and c) whether your ability to steer customers into using your preferred methods differs between online and off-line (card-present) environments. [redacted].

194 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

195 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

196 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

197 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

198 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

- One merchant said it promotes the use of more secure and lower cost payment methods, with messages throughout the payment process advising customers of these methods and placing the business credit and debit card surcharge cost up front, where relevant. The merchant said that this leads an ‘appreciable number’ of its customers to change payment method.¹⁹⁹ We note that the nature of this merchant implies that it is likely to be less concerned by reduction in conversion rates due to friction in the payment method.

2.101 A merchant association said that ‘[c]ertain types of low-level steering are commonplace, such as encouraging customers to use a store’s own gift cards or loyalty points’. It also said that its ‘members have often seen that steering techniques have limited effectiveness, as customers typically have a preferred payment method for different reasons (e.g., budgeting, rewards) and will use it despite steering’.²⁰⁰

2.102 Some acquirers also commented on merchants’ ability to steer consumers in their submissions. The views they expressed were consistent with those from merchants: steering does happen but, except for some specific sectors, merchants have strong incentives to avoid adding friction at check-out:

- One acquirer explained that while ‘some merchants can direct consumers to specific payment mechanisms, generally the choice is driven by the consumer’.²⁰¹
- Another acquirer similarly submitted that merchants (particularly small merchants)²⁰² lack the ability to steer even in an online environment. The acquirer further submitted that mechanisms such as ordering payment mechanisms by merchant preference act at most as ‘marginal nudges’ and that the increased competition in online environments will lead merchants to hesitate to add any friction to the consumer check-out process.²⁰³
- A third acquirer told us that merchants are increasingly able to direct payers to a particular payment method. However, it added that this is only effective in certain specialised areas, such as tax and car purchases.²⁰⁴

2.103 We could only identify one document, among the submissions from Mastercard and Visa, that explicitly discusses merchants’ ability to steer their customers towards specific payment methods. A 2021 external report for Visa [redacted] states that, [redacted]. The report, however, does not mention [redacted]. The same report also states that [redacted].²⁰⁵

Merchants’ submissions on recent price changes

2.104 As part of our evidence gathering, we sent a questionnaire to merchants with a range of questions, including questions on merchants’ awareness of the levels of scheme and processing fees they are charged, how these have changed in recent years, and their views on the reasons for any fee changes. Eight merchants responded to our questionnaire, as well as the British Retail Consortium (BRC). One merchant responded anonymously through the BRC.

199 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

200 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

201 Stakeholder response to PSR information request dated 11 January 2023. [redacted].

202 The acquirer noted [redacted] and [redacted] as having successfully secured more favourable deals with the schemes by threatening to stop accepting certain payment types.

203 Stakeholder response to MR22/1.4 (23 February 2023). [redacted].

204 Stakeholder response to MR22/1.4 (23 February 2023). [redacted].

205 [redacted].

Fee increases

- 2.105** Six merchants told us that they do have visibility of the levels of scheme and processing fees levied by Mastercard and Visa²⁰⁶, with three of these explicitly telling us that they were on IC++ contracts, although we note that, given the size of the respondents, they are all likely to be on such contracts.²⁰⁷ Two merchants said that they did receive a breakdown of fees but consider information provided about the fee levels for services as ambiguous and not sufficiently granular.²⁰⁸
- 2.106** Eight merchants told us that scheme and processing fees levied by Mastercard and Visa had increased in recent years:²⁰⁹
- Three merchants told us that overall scheme and processing fees have increased as a percentage of sales revenue. One told us that scheme and processing fees had increased by 12% since 2017²¹⁰, while another stated that scheme fees had increased by 162% between 2015 and 2022.²¹¹ The third responded that the scheme fee rate increased by 2 basis points between 2021 and 2022 (to [redacted] basis points for Visa and [redacted] basis points for Mastercard).²¹²
 - Three merchants told us that both Mastercard's and Visa's scheme and processing fees had increased as a percentage of sales revenue. One told us that Mastercard fees increased by 40% and Visa fees increased by 33% since 2017.²¹³ [redacted].²¹⁴ One told us that Mastercard fees increased by 78% (to 0.073% of sales revenue) and Visa fees increased by over 50% (to 0.041% of sales revenue) between 2019 and 2022 ([redacted]).²¹⁵
 - One merchant told us that its nominal scheme and processing fees increased by 23.37% between 2020 and 2021 however this is not as a percentage of sales revenue.²¹⁶ One merchant told us that scheme and processing fee costs are increasing every year.²¹⁷

206 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

207 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

208 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

209 [redacted] also told us one of its members had sent data showing a 70% fee increase for one scheme [redacted]. [redacted] could not provide this level of detail [redacted].

210 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs.

211 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs.

212 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

213 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs.

214 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs. Its response included some breakdown of different trends in fees between its different retail operations and between online and in-store transactions, with some very different trends in scheme fees for those different segments.

215 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs.

216 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs. [redacted] said that this increase was driven by increased card usage. [redacted].

217 Stakeholder response to PSR questions dated 26 January 2023 [redacted]; could include other scheme costs. [redacted] said that overall fees have increased as transactions increase as well as due to schemes introducing new fees for additional services.

Reasons for fee increases

- 2.107** Two respondents told us they consider there to be no justification for the price increases.²¹⁸ Another told us that Mastercard and Visa increased scheme and processing fees to keep profits high following the introduction of an interchange fee cap.²¹⁹
- 2.108** Two respondents told us that their nominal fees have increased because of increases to the value of payments received.²²⁰
- 2.109** Two merchants told us that increased overall scheme and processing fees could be partly explained by changes to the type of transaction made:
- One respondent told us that overall fee level increases could partly be explained by changes to their transaction mix as more payments [redacted].²²¹
 - One respondent told us that the increase to overall scheme and processing fees as a percentage of sales revenue could not be explained by changes in transactions.²²² It said that increased proportion of online sales is not a driver of increased fees. It said that increases in fees could probably not be attributed to higher proportions of credit card payments. However, it said that increased use of Mastercard cards (instead of Visa) is likely to have contributed to higher fees.
- 2.110** Four merchants told us that increases to fees could not be explained by changes to the type of transaction made.²²³
- 2.111** Five merchants commented on whether there had been innovation which could have benefitted them:
- One merchant said that there have been very few useful innovations, the Account Updater has been most useful.²²⁴
 - Four merchants told us that they did not consider there to be new innovation and services from either Mastercard or Visa to justify the fee increases.²²⁵
 - One said that Strong Customer Authentication (3D Secure) is an innovation that was brought in by schemes at a cost of between £0.02 and £0.15 per transaction.²²⁶
- 2.112** Some merchants commented on whether behavioural fees could explain the fee increases:
- Two said that they did not consider that behavioural fees could explain fee increases.²²⁷

218 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

219 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

220 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

221 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

222 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

223 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

224 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

225 Stakeholder response to PSR questions dated 26 January 2023 [redacted] (although [redacted] did note the introduction of 3D Secure).

226 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

227 Stakeholder response to PSR questions dated 26 January 2023. [redacted].

- Some mentioned specific fees. One said that Address Verification Service fees for excessive authorisation attempts could explain an increase but this merchant switched off this service to avoid the fee.²²⁸ Another said a small increase in fees could be attributed to the introduction of new fees such as the Mastercard Transaction Processing Excellence (TPE) Programme and the Visa Enhanced Authorisation Fees (introduced in 2022/2023).²²⁹ Another said increased fees could be mapped onto fee increases (such as the introduction of the Visa Acquirer Authorisation Fee in 2018) but the merchant does not receive all the fee increase notifications.²³⁰ Another told us that schemes unfairly charge for behavioural fees such as the Excessive Authorisation Fee and schemes are unhelpful in explaining these to the merchant.²³¹
- One merchant told us that there have been new fees charged over the last few years following updated Strong Customer Authentication rules which could explain some of the increase in scheme and processing fees. An example is the SCA Exemption Fee (Mastercard) which is charged to the merchant when an Acquirer TRA exemption is requested via the authorisation flow, regardless of whether or not the issuer approves the request. Another example is the E-Commerce Authentication fee which is charged on 3D Secure payments.²³²

Responses to the interim report

2.113 As part of the consultation on our interim report, we asked stakeholders for views on the extent to which changes in average fee levels in recent years have been accompanied by commensurate changes in:

- the value to customers of the services provided by Mastercard and Visa
- the quality of service provided by Mastercard and Visa, or
- innovation by Mastercard and Visa

2.114 We received responses to this question from:

- two merchants and two merchant associations²³³
- two acquirers

Responses by merchants and trade associations

2.115 One merchant told us that it was not directly aware of commensurate changes in the value of the services and had seen no visible change in the quality of the services, although it assumed that innovations such as 3D Secure had improved security.²³⁴

228 Stakeholder response to PSR questions dated 26 January 2023. [3-].

229 Stakeholder response to PSR questions dated 26 January 2023. [3-].

230 Stakeholder response to PSR questions dated 26 January 2023. [3-].

231 Stakeholder response to PSR questions dated 26 January 2023. [3-].

232 Stakeholder response to PSR questions dated 26 January 2023. [3-].

233 One of these merchants had already submitted that it did not consider there to be new innovation and services from either Mastercard or Visa to justify the fee increases (see paragraph 2.111).

234 Stakeholder response to MR22/1.9 (21 May 2024). [3-].

2.116 Another merchant told us that, while it appreciates the overall value that cards bring to the UK payments ecosystem, it has not seen sufficient changes relating to services, quality, or innovation that would warrant the increase in scheme and processing fees it experienced over an eight-year period. It submitted that some of the new fees appear to be opportunistic, where the fees are introduced shortly after regulatory or rule changes that mandate the action that incurs the fee. The merchant provided the following examples:

- the fees introduced for flagging transactions as 3D Secure authenticated, shortly after Strong Customer Authentication regulation effectively mandated 3D Secure
- new fees introduced by Mastercard for undertaking transactions at automated fuel dispensers, which followed swiftly after merchants had undertaken significant development and changes to customer experience to adhere to mandated changes introduced by the schemes²³⁵

2.117 A merchant association, while recognising that cards are critical to the UK market at present, submitted that card schemes have never been forthcoming with evidence of the quantification of any supposed value, which the merchant association argued is because the fees do not represent equal value. Most of the time when fee changes are introduced, retailers see no difference in the service they are receiving.²³⁶

2.118 Another trade association submitted that, while the core services provided by Mastercard and Visa — such as transaction processing and fraud prevention — have seen incremental improvements, and the schemes have introduced innovations in digital payments, security measures and data analytics, these enhancements are part of ongoing technological advancements and do not represent a proportionate increase in value relative to the higher fees.²³⁷

Responses by acquirers

2.119 The two acquirers responding to the question submitted that changes in quality have not been commensurate with changes in prices:

- One acquirer told us it does not have evidence to suggest that the recent changes in average fee levels have been accompanied by commensurate improvements in the value to customers, the quality of service, or innovation provided by Mastercard and Visa. It added that its observations indicate that the quality of service has remained poor, despite the increases in fees.²³⁸
- Another acquirer submitted that it has not observed significant changes in payment performance or risk mitigation that would justify the fee increases.²³⁹

235 Stakeholder response to MR22/1.9 (21 May 2024). [↗].

236 Stakeholder response to MR22/1.9 (21 May 2024). [↗].

237 Stakeholder response to MR22/1.9 (21 May 2024). [↗].

238 Stakeholder response to MR22/1.9 (21 May 2024). [↗].

239 Stakeholder response to MR22/1.9 (21 May 2024). [↗].

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