

# Market review of card scheme and processing fees

Final terms of reference

October 2022

# Contents

1	Introduction	3
	Why do scheme and processing fees matter?	3
	Why we are carrying out this review	5
	Stakeholder input to the terms of reference	6
2	The scope of the market review	7
	Focus on Mastercard and Visa	7
	Consideration of other payment methods	7
	The period we will initially collect data for	8
	Types of cards	8
	Fee categories	8
3	Our approach	10
	Possible outcomes	12
4	Next steps	13
	We welcome input to this market review	13
	<b>Annex 1</b> Four-party card payment systems	14
	<b>Annex 2</b> Disclosure of information	16
	<b>Annex 3</b> Indicative timetable of work	18

# 1 Introduction

- 1.1** This document sets out our final terms of reference (ToR) for a market review of the scheme and processing fees associated with Mastercard and Visa, the two largest card payment system operators in the UK. It follows our consultation on the draft ToR published on 21 June 2022.<sup>1</sup> The aim of the market review is to understand if the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives.
- 1.2** We are conducting this market review using our general powers under the Financial Services (Banking Reform) Act 2013 (FSBRA). This final ToR explains the scope of the market review, our approach and the next steps.

## Why do scheme and processing fees matter?

- 1.3** Card payments are critical to the smooth running of the UK economy as they enable people to pay for their purchases and merchants to accept payments for goods and services. They are a well-established method for consumers to make payments, and their use is growing. In 2021, there were 21 billion UK-issued debit card payments totalling £702 billion. UK-issued credit card payments in the same year numbered 3.5 billion and amounted to £182 billion.
- 1.4** Card payment systems are administered by card scheme operators. To accept card payments, merchants need to buy card-acquiring services from acquirers or payment facilitators.<sup>2</sup> To pay by card, customers need to obtain a debit, credit, charge or prepaid card from an issuer.
- 1.5** Acquirers and issuers make payments to card payment system operators for scheme and processing services, as well as for other services. For further details about how a card payment works, and associated definitions, please see Annex 1.

---

1 MR22/1.1, [Market review of card scheme and processing fees](#) (June 2022)

2 These are services to accept and process card payments on behalf of a merchant, resulting in a transfer of funds to the merchant. Merchants can contract with acquirers or payment facilitators to obtain these services. A payment facilitator is a payment service provider (PSP) that enables merchants, via a payment gateway, to accept card payments. The payment facilitator contracts with an acquirer who retains responsibility for allowing merchants to access the card payment systems. The acquirer is also liable for the merchant's and the payment facilitator's compliance with the rules set by the card scheme operator.

**1.6** For the purposes of this market review, we define scheme and processing fees as below. We have further clarified the definitions to take into account the feedback from our consultation on the draft ToR:

- **Scheme fees** are fees charged by a card payment system operator in return for services relating to participation in the card system. These include any non-mandatory services provided by the card payment system operator.
- **Processing fees** are fees charged by processing entities to their customers (issuers and acquirers) for authorisation, clearing and settlement services for card payments. These include additional card payment functions, such as anti-fraud reporting.<sup>3</sup>

**1.7** It will sometimes be useful in our analysis to categorise scheme and processing fees as either mandatory or non-mandatory. Mandatory fees can include those that must be paid as a condition of participating in the scheme or processing activities of a card payment system. Non-mandatory fees may include fees for services that customers can purchase from other suppliers (or choose not to purchase at all). Card scheme operators may also charge behavioural fees, which are intended to encourage scheme members or processing customers to adopt particular processes, technological solutions and behaviours.

**1.8** Mastercard and Visa's scheme and processing fees are costs for issuers and acquirers, who may recover the costs in different ways. For example, they may increase their charges to their customers (cardholders for issuers, and merchants for acquirers).

**1.9** We want to understand if the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives. Our market review will examine the levels, structure and types of scheme and processing fees. We will also gain an understanding of payments made by Mastercard and Visa to card issuers and card acquirers, to understand the overall flow of fees.<sup>4</sup>

---

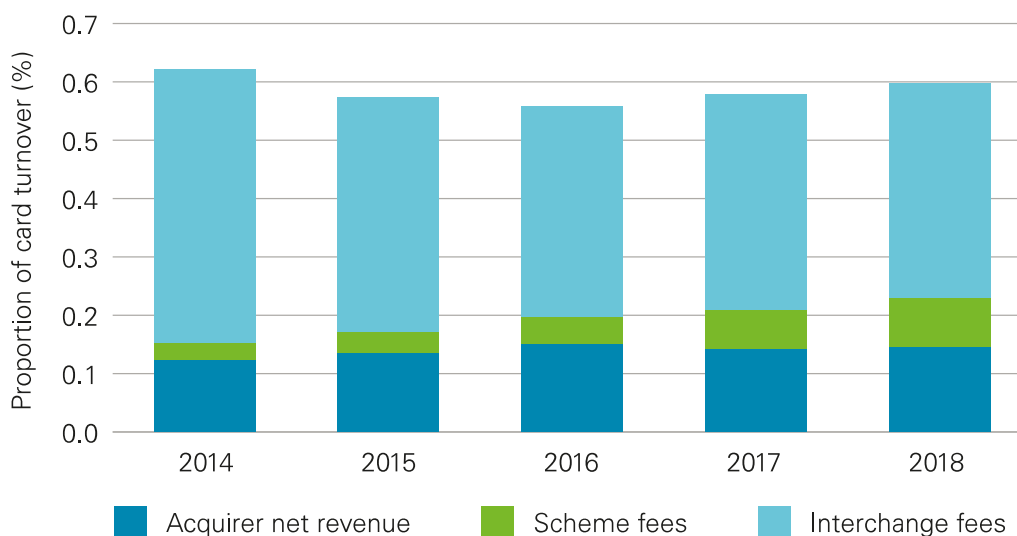
3 Relevant charges could be made by any company within the same corporate group as the card payment system operator. We also recognise that processing services may be provided by third parties. The scope of this market review does not extend to fees set by third-party processors; however, we will account for third-party processing services when examining constraints faced by Mastercard and Visa in their decisions about their processing fees.

4 The payments from Mastercard and Visa may include, but are not limited to, marketing assistance payments as well as discounts or rebates on scheme and processing fees.

## Why we are carrying out this review

**1.10** In November 2021, we published the findings of our card-acquiring market review. As part of the market review, we analysed the fees that acquirers paid to card payment systems. We found that scheme and processing fees (which we referred to as ‘scheme fees’ in the market review) paid by acquirers increased significantly over the period 2014 to 2018 as shown in Figure 1.<sup>5</sup> We also found that a substantial proportion of these increases are not explained by changes in the volume, value or mix of transactions.<sup>6</sup>

**Figure 1: Average merchant service charge as a percentage of card turnover split by acquirer net revenue, scheme and processing fees and interchange fees**



Source: MR18/8.1, *Card-Acquiring Market Review: Final report*, paragraph 5.13 and Figure 11.

**1.11** Various stakeholders have also raised concerns about scheme and processing fees increasing since 2018.

**1.12** In parallel with this, we are also carrying out a market review of cross-border interchange fees.<sup>7</sup>

<sup>5</sup> MR18/1.8, [Market review into the supply of card-acquiring services: Final report](#) (November 2021), paragraph 5.13 and Figure 11.

The merchant service charge is the total amount merchants pay to acquirers for card-acquiring services.

<sup>6</sup> MR18/1.8, paragraph 1.16.

<sup>7</sup> [www.psr.org.uk/publications/market-reviews/mr22-2-2-uk-eea-cross-border-interchange-fees/](http://www.psr.org.uk/publications/market-reviews/mr22-2-2-uk-eea-cross-border-interchange-fees/)

## Stakeholder input to the terms of reference

**1.13** We received 20 responses to the consultation on the draft ToR from a variety of stakeholders. We summarise and respond to stakeholders' comments in a separate document.<sup>8</sup> This document also contains the list of all respondents and the non-confidential versions of the responses.

**1.14** The remainder of this document is set out as follows:

- In **Chapter 2** we confirm the scope of our market review.
- In **Chapter 3** we describe our approach to the market review, identify some specific issues of interest and outline possible outcomes of the review.
- In **Chapter 4** we set out our next steps and invite submission of further views and information from interested parties.
- **Annex 1** summarises the four-party card payment system and **Annex 2** sets out our policy on disclosure of views and submissions. We also set out an indicative timeline for our review in **Annex 3**.

---

8 [www.psr.org.uk/publications/market-reviews/mr22-1-3-scheme-fees-stakeholder-input-summary/](http://www.psr.org.uk/publications/market-reviews/mr22-1-3-scheme-fees-stakeholder-input-summary/)

## 2 The scope of the market review

**2.1** Our market review will examine card scheme and processing fees. This chapter sets out the scope of the market review.

### Focus on Mastercard and Visa

**2.2** Our market review will focus on Mastercard and Visa scheme and processing fees. This is because, as of 2021, Mastercard and Visa accounted for around 99% of the combined total of UK debit and credit card payments both by volume and value. In addition, concerns stakeholders have raised with us about card payment system scheme and processing fees largely relate to Mastercard and Visa.

**2.3** While other cards are accepted by merchants and issued in the UK, Mastercard- and Visa-branded cards account for most card payments overall and are an important part of merchants' payment expenses. Therefore our work could have the potential to make an important positive difference for UK merchants and consumers overall.

### Consideration of other payment methods

**2.4** A number of comments in the consultation asked us to consider extending the market review to charges levied by other participants in the payments ecosystem (other card schemes, and other payment methods, including digital wallets). We agree that constraints from other participants and other payment methods could play an important role in Mastercard's and Visa's decisions about card scheme and processing fees. The scope of the market review we proposed in our draft ToR, however, would assess competitive constraints that may arise from other participants than Visa and Mastercard, to the extent this applies. We, therefore, do not think that it is necessary to extend the scope of the market review; and so, our market review will focus on card scheme and processing fees.

**2.5** We currently have a significant programme of work focused on other payment methods, including account-to-account payments, and the future development of the New Payments Architecture (NPA).<sup>9</sup> In addition, we are actively monitoring trends across the whole payments landscape, which includes digital wallets and other

---

<sup>9</sup> The New Payments Architecture (NPA) is the UK payments industry's proposed new way of organising the clearing and settlement of payments made from one payment account to another, known as interbank payments. Alongside the Bank of England, we are monitoring Pay.UK's work throughout the development of the NPA. Together we're working to ensure that the NPA is resilient and takes account of and promotes good outcomes for all users. More about our role on the NPA can be found on our website: [www.psr.org.uk/our-work/new-payments-architecture-npa/](https://www.psr.org.uk/our-work/new-payments-architecture-npa/)

payment systems. In our view, this work is the right place to consider any specific issues concerning digital wallets, account-to-account systems and digital currencies. We are mindful of the links between this market review and our other work as outlined in our five-year Strategy.<sup>10</sup> We will therefore draw on this work where necessary, and make sure that any conclusions, recommendations or remedies coming out of this market review are consistent with our wider work.

## The period we will initially collect data for

- 2.6** The main parties' responses to our consultation on the draft ToR highlighted difficulties in providing reliable data that goes back beyond five years. As a result, we have shortened the initial period for which we are collecting data for the market review from eight years (that is, 2014 to 2022) to five years (2017 to date). We will also be able to draw on our card-acquiring market review analysis, which covered analysis of scheme and processing fees on the acquiring side of the market, from 2014 to 2018.
- 2.7** Our analysis will take into account developments outside the time period of our initial data collection set out above, to the extent that evidence is available and relevant, to inform our views. In addition, we may seek more historic data if appropriate.

## Types of cards

- 2.8** At this stage, we do not limit the scope of the market review to the scheme and processing fees paid by any particular types of service users. The market review will therefore consider scheme and processing fees which apply to consumer and commercial credit, debit, charge and pre-paid cards.

## Fee categories

- 2.9** Our focus is on all UK-related transactions which incur scheme and processing fees. By this we mean transactions involving at least one of:
- a. UK issuers
  - b. UK acquirers
  - c. UK merchants
  - d. UK card holders

---

<sup>10</sup> [The PSR Strategy](#) (January 2022)



**2.10** We will examine:

- Scheme and processing fees set by Mastercard and Visa (the levels, structures and types of scheme and processing fees), including any changes in the fee levels. These include, amongst others, mandatory fees, non-mandatory fees and behavioural fees.
- Payments that Mastercard and Visa make to service users. For example, marketing assistance payments, incentive payments or rebates on scheme and processing fees. We may look at levels, structures and types of payments made.
- Other fees and payments relating to Mastercard and Visa's scheme and processing activities

**2.11** We will not consider the level of domestic or cross-border interchange fees. The IFR already caps interchange fees on certain consumer credit and debit card transactions. Interchange fees levied on cross-border UK-EEA card transactions are being examined in our market review of cross-border interchange fees.<sup>11</sup>

---

11 [www.psr.org.uk/publications/market-reviews/mr22-2-2-uk-eea-cross-border-interchange-fees/](https://www.psr.org.uk/publications/market-reviews/mr22-2-2-uk-eea-cross-border-interchange-fees/)

## 3 Our approach

- 3.1** We want to understand whether the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives.<sup>12</sup>
- 3.2** We will assess the factors that may influence and constrain how Mastercard and Visa set scheme and processing fees, and the impact of this. Such factors may include:
- The extent of any barriers to entry or network effects involved in setting up and running card payment systems, which alone or in combination may mean that Mastercard and Visa face limited constraints when it comes to setting scheme and processing fees.
  - Whether Mastercard and Visa have a ‘must take’ status for merchants, which may mean that Mastercard and Visa face limited constraints from the ability of merchants (and their acquirers) to exercise choice about their acceptance when setting acquirer scheme and processing fees.
- 3.3** Our assessment will include considering the impact on competition, service users and innovation. We are therefore planning work to help us understand and assess whether, and how, the way that card scheme and processing services are supplied affect service users (including issuers, acquirers and merchants). In considering the outcomes from current levels of competition, we may also take into account resulting impacts on service users’ ability to innovate.
- 3.4** We are also planning to consider the differences in the structure and/or levels of scheme and processing fees charged to different participants (including issuers and acquirers), and their impact on competition, innovation and service-user interests.
- 3.5** To investigate the potential issues set out above, we propose to examine:
- the services Mastercard and Visa provide and the associated scheme and processing fees, including how and why these differ between individual service users
  - the factors Mastercard and Visa consider when setting the levels, structures and types of scheme and processing fees
  - the process Mastercard and Visa use to make decisions about the levels, structures and types of scheme and processing fees

---

<sup>12</sup> We note that having three objectives does not mean that we always need to pursue each of them, or each of them equally, in our considerations. Furthermore, we expect there to be a significant degree of overlap between the considerations under the three objectives.

- changes in the Mastercard and Visa service offering, including the introduction of new services or service components and the associated scheme and processing fees
- changes over time in the levels, structures and types of scheme and processing fees
- the reasons for the changes in the levels, structures and types of scheme and processing fees (including those associated with changes in the service offering)
- changes over time in the discounts, rebates and incentive payments and/or other support that Mastercard and Visa offer to issuers, acquirers and merchants
- the profitability of the UK<sup>13</sup> card businesses of Mastercard and Visa, and how these have changed over time
- competitive constraints Mastercard and Visa face when setting scheme and processing fees
- whether and how the competitive constraints faced by Mastercard and Visa differ for the services provided to issuers and acquirers respectively
- how much Mastercard and Visa are perceived as 'must take' payment methods for merchants
- how much the requirements and preferences of service users, particularly merchants, are reflected in Mastercard and Visa's decision-making regarding changes to these services
- the degree of transparency in the provision and pricing of scheme and processing services, and whether service users have a clear enough understanding of the services they are buying
- whether service users are able to assess which services they need and decline those they do not, and whether there are any constraints on their ability to do this
- how contractual terms relating to scheme and processing fees are reached with Mastercard and Visa.

**3.6** We expect our thinking to develop over the course of the market review, including the possibility that further issues or areas of analysis are added (if they relate to potential harm to competition, innovation or service users) or some issues are dropped.

---

13 This may include obtaining European data from Mastercard and Visa for cost attribution and reconciliation purposes in order to ensure our UK profitability analysis is robust.

## Possible outcomes

**3.7** We will consider what actions, if any, to take if we identify a need to take action to promote our statutory objectives.<sup>14</sup> For example:

- making new, or amending existing, general directions
- making new specific directions
- requiring the operator of a regulated payment system to establish or change their operating rules, to notify us of rule changes or to seek our approval before making rule changes
- making recommendations for industry initiatives or enhanced industry self-regulation
- publishing guidance
- carrying out an investigation into a potential breach of the Competition Act 1998
- opening a regulatory enforcement investigation if we believe there may have been a compliance failure
- making a market investigation reference to the Competition and Markets Authority (CMA) to investigate a market or a feature of several markets.

**3.8** We want any action we take to be effective and proportionate to any issues we identify. The following three principles will generally be relevant when considering intervention:

- **The efficiency principle:** An expectation that resources are used in the most efficient and economical way.
- **The proportionality principle:** Where a burden or restriction imposed on a person, or on the carrying on of an activity, should be proportionate to any benefits that are expected as a result of that burden or restriction.
- **The transparency principle:** Requires regulators to exercise their functions as transparently as possible.

**3.9** If there's no need to promote effective competition and no issues to address regarding current or potential service users, we will not act.

---

14 We recognise that the Bank of England is responsible for supervising systemically important financial market infrastructures (FMIs) in the UK, including payment systems, to ensure financial stability and operational resilience. Mastercard and Visa are both recognised as systemically important FMIs, and so are supervised by the Bank. There is more detail on the Bank's approach to the supervision of FMIs on its website: [www.bankofengland.co.uk/financial-stability/financial-market-infrastructure-supervision](http://www.bankofengland.co.uk/financial-stability/financial-market-infrastructure-supervision)

## 4 Next steps

- 4.1** The publication of this final ToR is an important step in our market review of card scheme and processing fees. Annex 3 sets out an indicative timetable for our work. Under this ambitious timetable, we plan to publish a report setting out our interim conclusions on card scheme and processing fees in Q4 2023 and a final report in Q2 2024.
- 4.2** We will continue gathering evidence and information from a range of stakeholders, using a variety of methods.
- 4.3** We will continue to liaise with other authorities as we progress our work. These include the Financial Conduct Authority (FCA), the Competition and Markets Authority (CMA) and the Bank of England.

### We welcome input to this market review

- 4.4** We welcome further views and evidence that will help inform our assessment. You can email us at [cards@psr.org.uk](mailto:cards@psr.org.uk) or write to us at:

Cards Scheme and Processing Fees market review team  
Payment Systems Regulator  
12 Endeavour Square  
London E20 1JN

- 4.5** Annex 2 provides more detail on our process around disclosure of information.

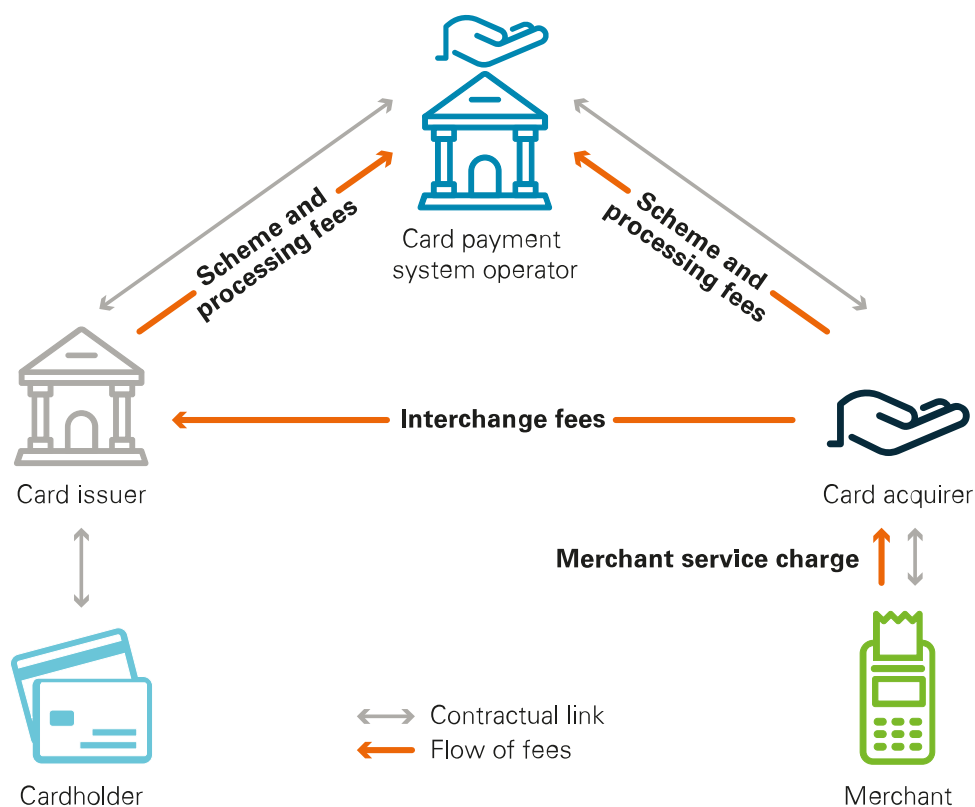
# Annex 1

## Four-party card payment systems

**1.1** As well as cardholders (individuals or businesses that use cards to buy goods and services), there are at least four other parties involved in four-party card payment systems:

- **Merchants:** Organisations that accept payment by card.
- **Operators of card payment systems (such as Mastercard and Visa):** Organisations that license issuers and acquirers to recruit cardholders and merchants, respectively. They manage the 'scheme rules' that govern how card payments are made and set the basis on which issuers, acquirers, merchants, cardholders and other parties participate in the card payment system.
- **Acquirers:** Banks or other organisations licensed by operators of card payment systems to recruit merchants to accept card payments.
- **Issuers:** Banks or other organisations licensed by operators of card payment systems to provide cards to cardholders. The issuer pays to the acquirer the money the merchant is owed for the transaction (less interchange fees) and debits the cardholder's account.

**Figure 2: Simplified structure of a four-party card payment system**



**1.2** Figure 2 above shows the main flow of fees between parties in a four-party card payment system, including:

- **interchange fees (IFs)**, which acquirers pay to issuers each time a card is used to buy goods or services<sup>15</sup>; this is a per-transaction fee and is usually levied as a percentage of the transaction value<sup>16</sup>
- **scheme and processing fees**, which are set by Mastercard and Visa
- **merchant service charge (MSC)**, which is the total amount merchants pay to acquirers for card-acquiring services. This comprises interchange fees, scheme and processing fees and acquirer net revenue<sup>17</sup>
- **cardholder fees**, which cardholders may pay to the issuers

15 The IF is typically deducted from the transaction amount that is paid by the issuer to the acquirer. Acquirers then typically pass the IF on to merchants through the MSC, so it represents a cost to merchants of accepting card payments.

16 The direction of an IF will differ in the case of ATM transactions.

17 Acquirer net revenue includes the costs the acquirer incurs (other than IFs and scheme and processing fees) to provide card-acquiring services, plus the acquirer's margin.

# Annex 2

## Disclosure of information

- 2.1** Generally, we will seek to publish views or submissions in full or in part. This reflects our duty to have regard to our regulatory principles, which include those in relation to:
- publication in appropriate cases
  - exercising our functions as transparently as possible.
- 2.2** We will not accept blanket claims of confidentiality. If you wish to claim confidentiality over specific items in your submission, you must identify those specific items you claim to be confidential and explain why this is the case. If you include extensive tracts of confidential information in your submissions, we will ask you to submit non-confidential versions.
- 2.3** We may be required to disclose information marked as confidential in order to meet legal obligations.
- 2.4** This would be the case, for example, if we are asked to disclose confidential information under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request under the Freedom of Information Act 2000. Any decision we make not to disclose information can be reviewed by the Information Commissioner and the Information Rights Tribunal.
- 2.5** In accordance with the legal framework in the Financial Services (Banking Reform) Act 2013 (FSBRA), we will not disclose confidential information that relates to the business or affairs of any person, that we receive for the purposes of our functions under FSBRA, unless:
- we have the consent of the person who provided the information and, if different, the person it relates to
  - there is a 'gateway' permitting such disclosure. One of the gateways is the 'self-help' gateway whereby we will be able to disclose confidential information to third parties to enable or help us perform our public functions. Where we disclose confidential information to a third party, we may impose restrictions on the further disclosure or use of the information by that party.
- 2.6** Information that is already lawfully publicly available is not confidential information for the purposes of FSBRA. This also applies if it is not possible to identify a particular person through the information. For example, if the information is summarised or made anonymous.



- 2.7** We have statutory powers under FSBRA to require a person to provide information or documents which we need to carry out our role. In such circumstances, you should note that there are serious consequences for you if you provide false or misleading information or fail to comply with such a request. In particular:
- Sections 90(1) and (2) of FSBRA state: 'A person who fails to comply with a requirement imposed, without reasonable excuse, including a requirement to provide information, may be dealt with as if he or she were in contempt of court, which may result in imprisonment or a fine.'
  - Section 90(6) of FSBRA states: 'It is a criminal offence, when, in response to a written requirement to provide information under section 81(1) FSBRA, a person either provides information which he or she knows is false or misleading in a material particular or recklessly provides information which is false or misleading in a material particular.'
- 2.8** Participants we regulate under FSBRA are also required to have an open and cooperative relationship with us and disclose relevant information to us, in accordance with our General Direction 1. Breaching a general direction is a compliance failure, which makes a participant liable for regulatory sanctions.
- 2.9** We take our data protection responsibilities seriously and will process any personal data that you provide to us in accordance with the Data Protection Act 2018, the General Data Protection Regulation and our PSR Data Privacy Policy. For more information on how and why we process your personal data, and your rights in respect of the personal data that you provide to us, please see our privacy policy on our website, available here: [www.psr.org.uk/privacy-notice](http://www.psr.org.uk/privacy-notice).

# Annex 3

## Indicative timetable of work

**3.1** The table below sets out the indicative timeline for our work on scheme and processing fees.

**3.2** This is an ambitious and challenging timetable and it is dependent on timely and constructive engagement from Mastercard, Visa and other stakeholders. If we make significant changes to this timetable, we will publish a revised version on our website.

Phase	Activity	Timing
Launch	Announce work on scheme fees	Nov 2021
	Issue initial information requests	Jan 2022
	Publish draft terms of reference for consultation	Jun 2022
	Publish final terms of reference	Oct 2022
Information-gathering and analysis	Publish initial working papers for consultation	Q4 2022/ Q1 2023
	Issue further information requests to parties	Q4 2022
	Analysis of information from main parties and other stakeholders	Q1/Q2 2023
	Publish working papers for consultation	Q2 2023
	Analysis of responses from main parties and other stakeholders, and supplementary information-gathering	Q3 2023
Interim report	Publish interim report for consultation	Q4 2023
Final report	Publish final report	Q2 2024
	Publish provisional remedies for consultation (if required)	Q2 2024
	Final decision on remedies (if required)	Q4 2024

PUB REF: MR22/1.2

© The Payment Systems Regulator Limited 2022  
12 Endeavour Square  
London E20 1JN  
Telephone: 0300 456 3677  
Website: [www.psr.org.uk](http://www.psr.org.uk)

All rights reserved