PSR Payment Systems Regulator

Stakeholder roundtables on cross-border interchange fees: Summary

The following is a summary of points raised at a series of roundtables held by the PSR with issuers, acquirers, and merchants to discuss the draft Terms of Reference we published in June 2022, which sets out the scope and approach of our market review on cross-border interchange fees. This paper summarises the views offered by participants in our roundtables. We do not consider the views given in these discussions and captured in this note as representative of all issuers, acquirers and merchants, but we do consider that they provide useful illustration and explanation of issues we are considering in our market review.

Representatives from the following organisations attended:

ABTA	**Elavon**	**Monzo**
Barclaycard	**EVO Payments**	**Nationwide Building Society**
Barclays	**Fiserv**	**NatWest**
Block Inc.	**FIS**	**PayPal**
British Independent Retail Association (BIRA)	**Global Payments**	**SaltPay**
British Retail Consortium (BRC)	**HSBC UK**	**SumUp**
Capital One	**Lloyds Bank Cardnet**	**UK Finance**
Confederation of British Industry (CBI)	**Metro Bank**	

Proposed scope

Question 1

- Do you agree with the proposed scope of the market review? If not, please explain:
    - how the proposed scope should be altered
    - why you think the proposed scope should be altered in this way

Scope

1. Merchant representatives confirmed that they were happy with the scope of the approach and agreed that UK-EEA cross-border IFs were a priority considering recent increases for CNP fees. Some also noted that IF for commercial cards have also increased and need to be considered by the PSR.

2. There was general agreement amongst acquirers that there was an advantage in separating the two market reviews, as they thought that the review into cross-border interchange fees could be completed more quickly.

3. However, one acquirer thought that, in addition to ones included in the scope of our current market review, there were other issues about interchange fees that needed to be considered, for example the level of interchange fees between the UK and the Rest of the World (RoW) (excluding the EEA). In particular, they noted that the UK, following the withdrawal from the EU, does not benefit from the commitments that Visa and Mastercard made to the European Commission relative to RoW-issued cards used in the EEA.

4. They agreed, however, that focusing on cross-border interchange fees between the UK and the EEA will help to make sure that the review proceeds at a faster pace.

5. Issuers queried whether the UK would be negatively affected by inbound fees increasing.

6. One issuer also suggested that all cross-border transactions, not just those between UK and the EEA, should be in scope of the market review.

Inbound and outbound interchange fees

7. One merchant representative noted that they have not seen any justifications for the increase to cross-border interchange fees. They suggested that, now that the UK is no longer part of the EU, the two schemes simply took the opportunity to increase fees where they could. They did not understand what were the underlying cost increase that justified these new levels. They noted that, according to their figures, the increases will cost UK merchants disproportionately compared to EEA merchants. The same representative noted that many merchants (with the exception of the very largest ones) cannot differentiate between cards based on the jurisdiction where they were issued. So, the increased IFs represent another cost increase to the merchants.

8. Several acquirers and issuers, whilst noting our position to prioritise outbound transactions stated that inbound and outbound fees were of equal importance to them. They appreciated what they called the PSR 'jurisdictional view' to focus on impact in the UK.

9. Some issuers questioned why the UK's withdrawal from the EU wasn't a sufficient explanation for the increases (given these fees are now equal to UK-ROW fees).

Proposed approach

Question 2

- Do you agree with our proposed approach? If not, please explain:
  - how the proposed approach should be altered
  - why you think the proposed approach should be altered in this way

10. One merchant representative suggested that we look at other European countries and their approach to interchange fees when considering issues related to these fees.

11. One acquirer said that, while the schemes do not directly benefit from interchange fees, they compete for issuers to strengthen their market power, meaning they have an incentive to increase the interchange fees whenever they can.

12. Timing of the increases was also considered important by a few acquirers. The first increases in cross-border interchange fees started in October 2021; the transition period following the UK leaving the EU ended in December 2020. Acquirers were sceptical that regulatory divergence between UK and EEA could have increased the cost of transactions to such a degree.

13. Related to this, some acquirers also questioned the new 'risks' for which such increases were supposed to compensate. They would like to see some evidence showing why the increases were made. They did not think that the UK withdrawal from the EU could justify such increases since they did not think that the 'transaction procedures' and requirements had changed.

Question 3

- Do you have views on the potential concerns we propose to investigate?
- Are there other concerns with cross-border interchange fees that we should be considering?

Proportionality

14. Merchants and acquirers both noted that the UK's exit from the EU might entail some regulatory divergence over time, but the increases in UK-EEA cross-border interchange fees over such a short period of time seemed disproportionate.

Merchants rerouting transactions

15. Acquirers did not give much weight to the idea that smaller merchants may be either relocating themselves or rerouting transactions to reduce their exposure to increases in UK-EEA cross-border interchange fees, as they would lack the capability to reroute transactions in this way. Whilst larger merchants have the ability to do so, they noted that larger merchants can also negotiate directly with schemes, Acquirers noted that there is definitely a difference in terms of impact between smaller and larger merchants. The latter are able to organise their affairs to optimise interchange outcomes while smaller merchants don't have the same ability. One acquirer also noted that, while for larger merchants changing location is feasible, acquirers are not allowed to do so due to the schemes' rules, the implication being that smaller merchants cannot benefit from rerouting of transactions if they wanted to.

16. One merchant representative thought that larger merchants may consider utilising alternative payment methods that do not use the card scheme 'rails', in order to avoid the cross-border interchange fees charged by the schemes, but that any such plans would not be operational for several years.

Price differentiation

17. One acquirer explained that applying different charges depending on the jurisdiction where the card was issued is impractical for small merchants. In their view this is not only challenging from a practical point of view, but would not be well-received by consumers who, especially in the ecommerce environment, are sensitive to this kind of merchant behaviour. Consistent with this, following the cross-border interchange fee increases, this acquirer confirmed that they had not seen an increase in this type of practice.

Alignment of UK-EEA and UK-RoW interchange fees

18. Acquirers rejected the notion that aligning interchange fees for UK-EEA and UK-RoW card transactions would simplify matters for either them or merchants, as dealing with two cross-border interchange fees instead of one was of minor consequence. Having a single (higher) cross-border interchange fee would be costly for very little benefit.

Northern Ireland-Republic of Ireland

19. Both merchants and acquirers suggested that the impact of the increase in UK-EEA cross-border interchange fees on merchants and consumers close to the Northern Ireland-Republic of Ireland border should be closely examined by the PSR in the course of its market review.