

Annex 8 to final report

# Market review of card scheme and processing fees

Recent changes to scheme  
and processing fees

March 2025

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

# Annex 8

## Recent changes to scheme and processing fees

- 8.1** This annex discusses our analysis of recent changes by Mastercard and Visa to their scheme and processing fees, and how we have taken into account the submissions parties sent to us in response to our June 2023 working paper, 'Recent changes to scheme and processing fees' (the Fee changes working paper), which presented our emerging views on the evidence in this annex.<sup>1</sup>
- 8.2** Looking at recent changes to scheme and processing fees and what considerations underpinned them can allow us to better understand what factors Visa and Mastercard take into account when setting their fees. This, together with evidence from other sources, can shed light on the competitive constraints Mastercard and Visa face when setting their fees.
- 8.3** For this reason, in November 2022 we sent Mastercard and Visa formal information requests asking them to provide detailed information and internal documents on a selection of fee changes. Our aim was to cover the 20 fee changes implemented between 2017 and 2021 that were expected to have the largest revenue impact in the UK. Through separate formal information requests, we also asked acquirers and issuers to indicate the most significant fee changes that they had experienced in recent years and cross-checked the responses against the fee changes we selected for the analysis.
- 8.4** Given the way we selected fee changes analysed in this annex, our analysis should not be interpreted as a characterisation of Mastercard's or Visa's decision-making process for all fee changes, but simply as an assessment of the features and underlying rationales of the largest fee changes implemented in the period 2017-21.
- 8.5** When examining changes to scheme and processing fees between 2017 to 2021, there are two contextual elements to consider:
- In 2016 the requirement for a separation between the scheme and processing arms of a card scheme operator, mandated by the Interchange Fee Regulation, came into force. Some fee changes early in the period must be seen in this context.
  - In June 2016 Visa Inc. acquired Visa Europe, starting the transition of Visa Europe from a member-owned association to a commercial entity.

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<sup>1</sup> [MR22/1.6 Recent changes to scheme and processing fees working paper](#) (the Fee changes working paper).

**8.6** The rest of the annex is divided in three sections:

- **Evidence requested and received:** What information we requested, the type of documents we received, and how this affected the scope of our analysis.
- **Summary of evidence:** Separate summaries of the evidence on Mastercard and Visa's fee changes for the sample selected. It discusses whether the fees are mandatory, optional or behavioural, and why. It examines the extent to which the fees are UK-specific, and how the fee changes affected different types of customers (for example, acquirers and issuers); and it considers the rationales offered for the changes. In particular, we consider how the documents discuss the value and cost of the services, and the competitive constraints that Visa and Mastercard face.
- **Our assessment:** Some general observations on the analysis.

**8.7** We list the fee changes included in our analysis in Annex A.

## Evidence requested and received

**8.8** Our objective in selecting the fee changes for our analysis was to identify the most significant changes that Mastercard and Visa introduced in the UK between 2017 and 2021 and investigate what these changes tell us about the reasons for fee changes and the competitive constraints that Visa and Mastercard face. However, the nature of the process does not rule out that we may not have captured all the fee increases which could have provided useful input to these considerations.

**8.9** We asked for a wide range of evidence on each of the fee changes we selected, covering the rationale for the changes, the considerations that informed the decision on the size and structure of the fees, and the impact on issuers, acquirers and merchants. We also asked for internal documents covering these aspects.

**8.10** The nature, content and number of the documents submitted by Mastercard and Visa reflect both companies' governance structures, including the extent to which their internal processes (both generally and for a particular fee change) include wider, unrecorded, discussions.

## The selection of fee changes

**8.11** Visa and Mastercard introduced a large number of fee changes between 2017 and 2021. Analysing the documents for all these changes would not have been feasible. We therefore decided to focus on a selection. Our aim was to focus on the 20 fee changes that Visa and Mastercard expected to have the largest impact on their revenues in the UK. We based our selection on the *expected* rather than the *actual* revenue impact because, while Mastercard and Visa often develop initial revenue expectations when considering pricing changes, determining the actual impact of a fee change is more complex. [3]. [3]. As actual revenue can differ from expected revenue, the fee changes with the largest expected revenue impact may not necessarily be those with the largest actual revenue impact.<sup>2</sup>

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<sup>2</sup> Moreover, as all the revenue estimates in this annex are based on expected revenue, they may not reflect the actual impact of the fee changes we have analysed.

**8.12** Nevertheless, four respondents to the Fee changes working paper told us that the changes we considered include the most significant changes to scheme and processing fees introduced in the period 2017–2021.<sup>3</sup> None of the respondents named any significant changes introduced in that period and omitted from our analysis.

**8.13** In line with the approach we outlined in our final Terms of Reference, we did not look systematically at fee changes before 2017. We focused on the period up to 2021 since, as explained below, our information request was partially based on information we received in early 2022. For practical reasons, however, when selecting fee changes we used different methods for Mastercard and Visa respectively, as detailed below.

### Mastercard

**8.14** Our selection of Mastercard fees comprises three changes to processing fees and 17 scheme fees ‘change events’ (in some cases including simultaneous changes to more than one fee).<sup>4</sup> We provide the full list in Annex A. We asked Mastercard to identify the fee changes between 2017 and 2021 with the largest impact on their revenues in the UK. Mastercard told us that this would require a disproportionate amount of work, as it would have to compute the revenue impact of all fee changes, which was not readily available. We therefore based our selection on an analysis of documents submitted by Mastercard in response to an earlier formal information request sent in January 2022, which covered all the changes to scheme and processing fees implemented during the period. While we aimed at identifying the fee changes which were expected to have the largest revenue impact in the UK, the documents did not always specify the impact at UK level. This is because Mastercard often decides and implements fee changes at the European or global level. Therefore, our selection was, in some cases, based on European-level data. It is therefore possible that some of the fee changes we excluded may have had a revenue impact in the UK larger than some of the changes we included.

**8.15** Nevertheless, based on an analysis of the documents, the fee changes we selected account for:

- approximately 90% of the combined revenue impact of all scheme and processing fee changes for which the documents indicate an impact above EUR or USD [redacted] million in annual revenue in the UK (or the UK and Ireland; [redacted])
- around 60% of the combined revenue impact of scheme and processing fee changes for which the documents indicate a European-level impact above EUR or USD [redacted] million<sup>5</sup>

**8.16** For this reason, we are confident that our selection covers most of the fee changes implemented during the period that had a material revenue impact in the UK.

**8.17** Mastercard told us in its response to the Fee changes working paper, that our selection of fee changes accounts for less than [redacted] of the pricing documents that Mastercard submitted to us and is not representative of the complete set of Mastercard’s fee changes, stating that our findings cannot be generalised as representative of Mastercard’s

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3 Stakeholder responses to the Fee changes working paper [redacted].

4 One of the ‘scheme fee’ change events involved both scheme and processing fees. As the change was implemented before the introduction of the separation between scheme and processing fees mandated by the Interchange Fee Regulation, Mastercard classified it as affecting scheme fees.

5 We excluded from the calculation changes to fees related to Mastercard’s open banking solutions or to Vocalink, rather than to its payment cards.

pricing process.<sup>6</sup> As set out above (and in the Fee changes working paper), the sample upon which our analysis is based (which accounts for over 10% of the pricing documents submitted to us by Mastercard), includes the most material fee changes between 2017 and 2021. This excludes minor fee changes made over the same period which had a minor revenue impact. We are confident that assessing the most material fee changes, with the largest revenue impact, provides a sound basis for understanding the main reasons why Mastercard changed fees between 2017 and 2021. Therefore, the analysis in this annex should not be interpreted as a characterisation of Mastercard's decision-making process for all fee changes (see paragraph 8.133 below).

**8.18** Our selection also ended up including one fee change from 2016 (as the document we used for the selection was not clear on the date of implementation) and one from January 2023 (as Mastercard had decided to delay its implementation compared to the timeline indicated in the documents we used for the selection). However, while our selection includes many of the largest fee changes implemented in the period 2017–2021, it does not necessarily include the largest fee changes implemented in the wider period 2016–2023.<sup>7</sup>

**8.19** Our selection does not entirely overlap with the fee changes that acquirers and issuers mentioned as the most significant they experienced in recent years. While these customers did mention the fee changes with the largest revenue impact among those we selected, they did not mention several other fees that do appear in our selection. These fees typically have a lower revenue impact or relate to optional services (which certain customers may not take). Moreover, among the most significant fee changes listed by customers are a number of events that are not included in our selection. Most of these<sup>8</sup> relate to a suite of behavioural fees collectively referred to as 'Transaction Processing Excellence'. While it is not always straightforward to identify these fees in the documents provided by Mastercard in response to the January 2022 information request, the estimated revenue impact of changes to fees with the same (or very similar) names appearing in those documents is lower than the corresponding values for the fee changes we selected.

## Visa

**8.20** In response to our request, Visa submitted a list of the most significant fee changes (in terms of the anticipated revenue impact in the UK) implemented between 2017 and 2021, together with an assessment of their anticipated revenue impact. Visa's list included 23 changes to scheme fees and six changes to processing fees. Of the changes to scheme fees, we selected 16 (grouping some of them into a single change). Among those that were excluded, the one with the largest revenue impact in the UK was expected to generate [£] million on an annual basis. Of the changes to processing fees, only two had a revenue impact in the UK greater than [£] million on an annual basis and were therefore included in our selection. Thus we are confident that the fees we have selected account for a large proportion of the overall revenue impact due to fee changes implemented during the period.

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6 Mastercard response to the Fee changes working paper, page 3.

7 In particular, in the analysis below, the absence of significant fee changes in 2022 and 2023 is a result of the way the fees have been selected and should not be interpreted as indicating that no significant fee changes took place during the period.

8 Almost all the other fee changes for the period 2017–2021 not included in our selection have been mentioned by a single third party [£], which however was able to negotiate with Mastercard and reduce the impact of most of these to zero. Customers also mentioned a number of fee changes implemented in 2022, which is beyond the period covered by the information request sent to Mastercard.

- 8.21** We decided to also include two recent fee changes with a significant expected revenue impact (implemented in 2023) to our selection.<sup>9</sup> As with Mastercard, although we have looked at fee changes outside of 2017–2021, our sample does not necessarily include the largest fee changes for the entire period considered (2017–2023).
- 8.22** Overall, we included two changes to processing fees and 15 changes to scheme fees. The full list is presented in Annex A.<sup>10</sup> The number of ‘fee change events’ covered by our selection is less than 17 as several of these changes were planned and approved together. For example, in 2017, a set of four changes to scheme fees were implemented, which are typically discussed together in Visa’s internal documents. In addition, the two changes to processing fees that we considered were jointly implemented in 2018.
- 8.23** The fee changes mentioned by acquirers and issuers as the most significant they have experienced from Visa in the period 2017–2021 overlap primarily with those we selected. Only two of the fee change ‘events’ have not been mentioned by any customer, while few of the changes mentioned by customers are not included.<sup>11</sup>

## Documentary evidence

- 8.24** For each of the fee changes included in our selection, we asked Mastercard and Visa for information and documents on:
- the service associated with the new or changed fee
  - the rationale for the change
  - engagement with customers prior to implementation
  - competition for the service associated with the fee
  - the considerations that informed the decision on the magnitude of the fee change (or the level of a new fee), the structure of the fee and its optionality (that is, whether it was mandatory, opt-in or opt-out)
  - the reason why the fee was applied to only a specific type of customers (for example acquirers, issuers, merchants) or, if applied to more than one group, the considerations that determined the split between the different groups
  - the impact on Mastercard/Visa’s revenue from the new or changed fee across issuers, acquirers and merchants
  - whether – and, if so, how – the fee change was associated with any changes in payments made to issuers or acquirers
- 8.25** We asked for all the documents that decision-making bodies within Mastercard and Visa used when considering each fee change (or which informed any assessment included in

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9 The expected revenue impact of these two changes, of which Visa had made us aware, was significantly larger than that of any of the changes introduced between 2017 and 2021 that we did not include in our selection.

10 In its response to our formal information request, Visa discussed the two changes to processing fees jointly. For this reason, they have been listed in Annex A as a single change.

11 Most of the fee changes in 2017–2021 not included in our selection have been mentioned by a single third party [X], which however was able to negotiate with Visa and reduce the impact of most of the new fees to zero. Customers also mentioned a number of fee changes implemented in 2022, which is beyond the period covered by the information request sent to Visa.

such documents) which refer to the rationales for the change or set out the considerations that informed the choice of the specific level of the fee.

**8.26** We also asked Mastercard and Visa to provide evidence, including relevant supporting documentation, on competition for the relevant services, and on the considerations informing the decision to apply a fee to a specific category of customers, the structure of the fee, and associated payments to issuers or acquirers.

**8.27** Both Mastercard and Visa submitted internal documents along with narrative responses to these questions, answering separately for scheme and processing fees. The nature, content and number of the documents reflect the governance structures of each company.

### Overview of Mastercard's responses

**8.28** For the fee changes considered in this analysis, Mastercard provided [redacted] internal documents, ranging between [redacted] and [redacted] documents per fee change. These include [redacted] presentations [redacted], spreadsheets [redacted] and, [redacted]. Our selection included fee changes specific to the UK and Ireland, fee changes specific to Europe, and global changes. The documents we received reflected the slightly different governance processes for these different types of decisions.

**8.29** Mastercard explained that the team developing pricing proposals for Europe engaged in extensive consultation across Mastercard Europe. Similarly, a UK team develops UK-specific pricing proposals.

**8.30** [redacted].

**8.31** If a pricing proposal progresses through the early discussions and takes an initial shape, it is then typically assessed by a broader group of internal stakeholders. [redacted]. Mastercard told us that the process of designing a [redacted] will generally take at least [redacted] for mandatory, opt-out and other proposals where there is likely to be a need for customers to change their business practices or a significant expected revenue impact on customers.<sup>12</sup>

**8.32** [redacted].

**8.33** [redacted].<sup>13</sup>

**8.34** The documents we received from Mastercard in response to our request were mainly papers submitted to the body deciding UK and European pricing decisions. Mastercard told us that these documents [redacted].<sup>14</sup>

### Overview of Visa's responses

**8.35** Visa provided [redacted] documents, ranging between [redacted] and [redacted] documents per fee change. These include presentations [redacted], minutes [redacted], and [redacted].

**8.36** Visa told us that the team developing pricing proposals engaged in extensive consultation across Visa Europe. [redacted].

**8.37** [redacted].

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12 Mastercard response to the Fee changes working paper, page 9. Mastercard additionally noted that 'simple and non-controversial fee changes can be quickly discussed [redacted].

13 Mastercard response to PSR questions dated 12 January 2022 [redacted].

14 Mastercard response to the Fee changes working paper, page 3.



8.38 [redacted].

8.39 [redacted].

8.40 [redacted].<sup>15</sup>

8.41 In our view, it is often difficult to understand from the documents alone why Visa chose a specific fee structure or rate. [redacted]. Visa provided further explanation for its fee changes as part of our engagement and its written submissions.

## Summary of the evidence

### Mastercard fee changes

8.42 Based on our analysis of Mastercard's documents and evidence, we estimate that the fee changes in our selection resulted in a combined expected increase in annual net revenue from UK customers of £ [redacted] million.<sup>16</sup> This number is an approximation. We have typically taken the revenue impact in the first full year of implementation of each fee change. However, the impact of many fees changes over time, due to factors such as changes in the overall volume or composition of card transactions. In addition, [redacted], Mastercard had to use a series of assumptions to obtain an estimate.

8.43 Mastercard's internal documents [redacted]. Mastercard told us that [redacted].<sup>17</sup> In some cases, however, the difference between net and gross revenue [redacted]. Most of these cases relate to fees charged on issuers. We have used net revenue estimates, when these were available.

8.44 The composition of Mastercard's fees changed substantially in 2017. In 2016, the requirement that card scheme operators separate their scheme and processing arms, as mandated by the Interchange Fee Regulation, came into force. In 2017<sup>18</sup>, Mastercard [redacted] processing fees while [redacted], with a [redacted] in revenue, as shown in Figure 1. These changes are discussed in greater detail in Box 1<sup>19</sup> below.

#### Figure 1: Revenue impact of selected fee changes by year of implementation (£m)

[redacted]

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15 [redacted].

16 Mastercard's estimates for the revenue impacts of fee changes are expressed in euros or US dollars. In order to convert them into pounds, we have applied the yearly average exchange rate for the year in which the fee change took place, as computed by the Office for National Statistics. This may be different from the year in which the revenue was realised. For fee changes implemented in 2023, we have used the average exchange rate for 2022.

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

18 [redacted].

19 [redacted].

### Box 1: Mastercard's restructuring of scheme and processing fees in 2017

In 2017, Mastercard introduced changes to the level and structure of both its scheme and its processing fees in Europe. Overall, the changes resulted in:

- a [£] in processing fee revenue from UK customers, focused on domestic (and intra-European) transactions and low-value payments
- a [£] in scheme fees revenue from UK customers

The net impact of the changes was a [£] [0–5]% increase in revenue, with a fee reduction on the issuer side of around [£] [5–10]% and an increase on the acquiring side of approximately [£] [5–15]%.

The documents suggest to us that the reduction in processing fees was motivated by the following goals:

- [£]
- [£]

**8.45** This section summarises the evidence we have received on Mastercard's changes to scheme and processing fees, under the following themes:

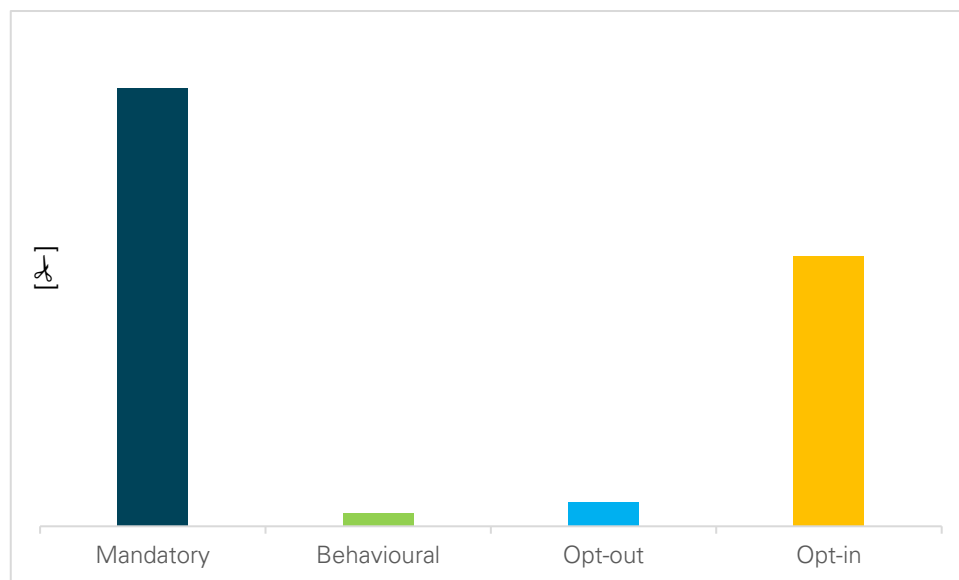
- **Optionality:** The incidence of mandatory, behavioural and optional fees in our selection, and the reasons why some services are made mandatory or opt-out.
- **Geographic scope:** The extent to which fee changes are specific to the UK or apply to a wider region.
- **Impact on acquirers and issuers:** The extent to which the fee changes in our selection affect issuers and acquirers and the revenue impact on the two sides.
- **Rationales for fee changes:** An overview of the rationales mentioned in Mastercard's documents.
- **Value and 'fair share':** How, when implementing a fee change, Mastercard assesses the value of the service it provides and how the fee level is linked to that value.
- **Competition:** A review of the fee changes for which competition is one of the stated rationales or is explicitly taken into account when setting the fee level.
- **Costs:** An analysis of the instances in which cost information is included in Mastercard's documents.
- **Customer engagement:** The extent to which Mastercard engages with customers and seeks their feedback on fee changes.

## Optionality

**8.46** In its response to the formal information request, Mastercard classified both scheme and processing fees as either mandatory, opt-out (customers are signed up to the service unless they actively choose not to receive it), or opt-in (customers must actively choose to receive the service). We reclassified one of the opt-in fees as 'behavioural'.<sup>20</sup> As customers are not required to source processing services from Mastercard for transactions involving a Mastercard card, processing fees are not strictly speaking mandatory. Nevertheless, Mastercard classed a processing fee as mandatory if the fee must be incurred when a transaction is processed by Mastercard. In practice, with the exception of some 'on-us' transactions in which the same firm operates as both the acquirer and the issuer, all other transactions involving a Mastercard card in the UK are currently processed by Mastercard itself – that is, Mastercard authorises, clears and settles all such transactions.<sup>21</sup> In the rest of the analysis, when looking at fee changes in aggregate, we will not distinguish between scheme and processing fees.

**8.47** The majority of fee changes in our selection relate to mandatory fees, as shown in Figure 2 below.<sup>22</sup>

**Figure 2: Revenue impact of selected fee changes by optionality (£m)**



**8.48** Mastercard observed that [redacted].<sup>23</sup> This is true, but it simply shows that most of the revenue impact was the result of a small number of fee changes. This does not affect the robustness of our analysis.

20 We also re-classified the MOTO fee as mandatory whereas Mastercard had indicated it as optional for acquirers [redacted]. Mastercard response to PSR questions dated 9 November 2022 [redacted].

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

22 As noted by Mastercard in its response to the Fee changes working paper (page 17), this does not mean that mandatory fees were necessarily increased by a larger proportion than optional fees, [redacted]. Also, this evidence is not inconsistent with optional fees accounting for an [redacted] Mastercard's overall revenue in the course of the period 2017-21. In fact, this also depends on changes in the adoption of optional services, which are not considered in the present analysis.

23 Mastercard response to the Fee changes Working Paper, page 18. See also Mastercard response to MR22/1.9 (21 May 2024), page 63.

- 8.49** Mastercard stated that many of these mandatory fees are integral to running the scheme, or to supporting the functions of authorisation, clearing and settlement in the case of processing fees. These fees are not associated with any specific service but with participation in the scheme itself.
- 8.50** Mastercard also mentioned other reasons why some fees were made mandatory. The first is the presence of network effects. Mastercard mentioned this as applying to the fees on two services:
- **Mastercard Cyber Secure:** A suite of cyber security and risk management capabilities for issuers and acquirers. According to Mastercard, [redacted].<sup>24</sup>
  - **Safetynet:** A tool designed to monitor the transactional traffic of Mastercard's network and avoid large-scale fraud events. The associated fee is charged to issuers. Mastercard said that [redacted].<sup>25</sup>
- 8.51** In contrast with the reasons set out above, Mastercard offered a different explanation for the mandatory fees charged to acquirers for Mastercom Acquirer Collaboration. This service allows small merchants to avoid a chargeback process by agreeing to solve the dispute with the issuer through the intermediation of the acquirer. Acquirers, however, typically charge merchants for chargebacks, so they may have a financial incentive not to facilitate dispute resolution outside the chargeback process. While participation by merchants is optional, Mastercard explained that it was necessary to make the service mandatory to acquirers to address the misalignment of incentives between merchant and acquirer. Specifically, this mandatory service is necessary to allow the merchant to make an informed decision on whether to dispute the chargeback or not.<sup>26</sup>
- 8.52** Our selection includes three changes to opt-out fees: these relate to two scheme services to issuers – AI Account Intelligence and Accountholder Authentication Value (AAV) validation – and to a suite of non-core processing services provided to acquirers – Transaction Investigator and Portfolio Analytics.<sup>27</sup> In some cases, Mastercard replaced a legacy service with a new one; in the case of AI Account Intelligence, Mastercard introduced the fee after offering a six-month free trial of the service.<sup>28</sup> In these three instances, Mastercard explained that it made the fees opt-out [redacted].
- 8.53** One of the changes in our selection involved a change of optionality. In September 2019, AAV validation changed from opt-in to opt-out. Mastercard explained that from that month on AAV validation was going to be required under the revised Payment Services Directive (PSD2). Although customers can source the service from other providers, Mastercard decided to make it opt-out [redacted].<sup>29</sup>

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

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

26 The expected revenue impact of this mandatory fee in the UK is [redacted]. Mastercard response to PSR questions dated 9 November 2022 [redacted].

27 For a short description of these services, see Annex A.

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

29 [redacted].

**8.54** The evidence suggests that customers have been able to opt out of these services:

- 12 months after the introduction of the fee on AI Account Intelligence, [£] issuers had opted out of receiving the service.<sup>30</sup> PSR data for March to August 2022 shows these issuers account for [£] of the volume and value of transactions by Mastercard's UK cardholders.
- [£] issuers have opted out of AAV validation for [£] of their card Bank Identification Numbers (BINs).<sup>31</sup> PSR data for March to August 2022 shows that these issuers account for almost [£] of transactions by Mastercard's UK cardholders.
- Mastercard data on UK acquirers shows that, as of February 2021, [£] existing acquirers in 2019 opted out of Portfolio Analytics, with [£] of these opting out of Transaction Investigator.<sup>32</sup> PSR data shows that at that date these [£] acquirers accounted for approximately [£] of the volume and [£] of the value of Mastercard transactions acquired by UK-based acquirers.

**8.55** Our selection includes 13 changes to opt-in fees. Those with the largest revenue impact relate to 3D Secure, a service providing Strong Customer Authentication. Eight other fee changes have a revenue impact of at least £[£] million each on an annual basis, and six of them relate to the introduction of new or improved optional services.

**8.56** Finally, among the fee changes we selected there is only one that we classified as behavioural – a fee paid by acquirers for use of a non-chip-and-PIN, or non-contactless POS terminal.

### Geographic scope

**8.57** Among the changes to mandatory fees in our selection, those with [£] typically do not apply uniformly across the whole of Europe. These include:

- The introduction of card-not-present (CNP) pricing in Europe in 2018. While this changed fees across Europe, fees for domestic transactions were set in the UK and Ireland at a [£] level [£]. By contrast, fees for intra- and inter-regional transactions were set uniformly across Europe.<sup>33</sup> For a discussion of the reasons for the difference between the UK and Ireland and the rest of Europe, see paragraph 8.79.
- A revision of the acquiring volume fee, specific to [£].<sup>34</sup>

**8.58** The 2017 rebalancing of scheme and processing fees discussed in Box 1 above, although involving the entire European region, was also implemented differently across different countries. For example, [£].<sup>35</sup>

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30 Mastercard response to PSR questions dated 9 November 2022 [£].

31 Mastercard response to PSR questions dated 9 November 2022 [£].

32 Mastercard response to PSR questions dated 9 November 2022 [£].

33 [£].

34 While the fee was revised in [£] European countries (by 2022), its level varied across countries, with its level being the lowest among countries with [£] than the remaining countries with tiered fees. It is expected that all countries will have flat fees by [£]. Mastercard response to the Fee changes working paper, page 18.

35 [£].

**8.59** Several other changes to mandatory fees, however, were implemented at a European level. These changes are of two types:

- Changes related to fees on mandatory cyber security services, priced [£].
- Changes extending the scope of existing fees to new categories of transactions. [£].

**8.60** Most changes to optional fees in our selection were applied [£]. The only exceptions were [£].<sup>36</sup>

**8.61** Finally, the only behavioural fee in our selection (charged on transactions made using non-chip-and-pin or non-contactless terminals) [£].<sup>37</sup>

### Impact on acquirers and issuers

**8.62** A similar number of changes in our selection affect acquirer-side and issuer-side fees, with many changes affecting both sides. Of the 25 fee changes listed in Table 1 in Annex A, 19 affect acquirer-side fees and 20 affect issuer-side fees. In particular, all the changes to mandatory fees in the selection affect fees on both sides, while the side affected by changes to optional fees depends on which type of customers the related service is offered to.

**8.63** The fact that a fee change affects both sides of the market, however, does not necessarily mean that the two sides are affected equally. The data provided by Mastercard does not always allow the separation of the revenue impact of fee changes on acquirers and issuers. However, it is evident from the data that most of the revenue increase Mastercard obtained from the changes we have considered has come from acquirers. This is particularly the case when mandatory fees are considered, as shown in Figure 3 below.

### Figure 3: Revenue impact of selected fee changes by type of customer (£m)

[£]

**8.64** In its response to the Fee changes working paper, Mastercard observed that the result set out in Figure 3 depends heavily on three fee changes [£].<sup>38</sup> However, this simply shows that most of the revenue impact in our selection of fee changes was the result of a small number of fee changes, and does not affect the robustness of our analysis.

**8.65** In relation to the types of cards affected by the changes, none of the fee changes in our selection differentiate between debit and credit cards, neither do the internal documents consider the impact of the change separately for different types of cards.

### Rationales for fee changes

**8.66** Fee changes can involve either a revision of fees for existing services or the introduction of new fees, often alongside the launch of new or improved services. Among the fee changes we selected, the frequency of these two cases varies between mandatory and optional fees:

- In most cases, mandatory fees in our selection were not associated with any specific service, but rather with participation in the scheme. Changes, therefore, were not usually directly associated with the introduction of new services, although Mastercard

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36 [£].

37 [£].

38 Mastercard response to the Fee changes working paper, page 19.

told us that the underlying services have undergone continued improvements. A small number of the increases of mandatory fees, however, were associated with the launch of new versions of services for cyber security and fraud detection.<sup>39</sup> These account for [redacted] of the overall revenue impact from changes to mandatory fees in our selection.

- Increases in optional fees appear more likely to accompany the introduction of new services. However, price revisions to already existing optional services account for [redacted] of the revenue impact from optional fees in our selection. Mastercard told us that the underlying services are constantly improved.

**8.67** Many of the proposal documents associated with changes that Mastercard has proposed since 2019 and carried out since 2020 [redacted]. They are:

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]
5. [redacted]
6. [redacted]<sup>40</sup>

**8.68** [redacted], Mastercard's internal documents typically include a discussion of the reasons why it is changing a fee. We have grouped these rationales into eight categories, based on our interpretation of the documents. In Figure 4 below, the length of each bar corresponds to the combined revenue impact of the fee changes from our selection that fall into each category.<sup>41</sup> Figure 5 shows the number of fee changes to which each of these rationales apply. As fee changes can have more than one rationale, the same fee change, and the associated revenue impact, can be included under multiple rationales.

**Figure 4: Revenue impact of selected fee changes by rationale (£m)**

[redacted]

**Figure 5: Number of selected fee changes by rationale**

[redacted]

39 An additional mandatory fee associated to a new service is the one discussed in paragraph 8.51.

40 [redacted].

41 In some cases, a single fee change may include several components, and a specific rationale may apply to only one of those components. The revenues in the chart, however, represent the overall impact of fee changes. As such, the chart may show some of the rationales as associated with a larger revenue impact than they would in practice.

**8.69** The eight rationales are described in more detail below:

1. **Reflecting value of the service:** This is the rationale we identified most frequently both in Mastercard's internal documents and in Mastercard's narrative response. In the narrative response Mastercard often expresses this in terms of capturing a [redacted]. We discuss how Mastercard assesses the value of a service in greater detail in paragraphs 8.71 to 8.74 below.<sup>42</sup>
2. **Simplifying the fee structure:** We identified this rationale in relation to a change to mandatory scheme fees implemented in 2021. [redacted]. The same rationale appears in relation to the replacement of several processing fees with a byte-based data usage fee. The rationale applies to the structure of a fee, rather than to its level.
3. **Creating a level-playing field:** We identified this rationale in relation to the 2021 change discussed under rationale 2. [redacted]. Like rationale 2, this reasoning only applies to the structure of a fee, rather than to its level.
4. **Responding to customer need/creating value:** We typically identified this rationale in relation to new optional services. Internal documents related to these changes typically include a discussion of [redacted].<sup>43</sup> In other cases the documents do not specify how Mastercard identified [redacted]. The same rationale is also mentioned in relation to improvements introduced in cyber security and fraud detection services, which are included among the mandatory fees; [redacted].<sup>44</sup>
5. **Encouraging change of behaviour:** We identified it as the [redacted] for the change to a behavioural fee in our selection. It is also used to justify a change to a mandatory scheme fee [redacted].<sup>45</sup>
6. **Responding to/accounting for competition:** We identified this rationale in relation to [redacted]. A more detailed discussion is developed in paragraphs 8.75 to 8.79 below.
7. **Incentivising transition to a new product:** We identified this rationale in relation to [redacted] fee changes, which are aimed at incentivising customers' transition from a legacy service to its new version.<sup>46</sup>
8. **Incentivising correct reporting:** We identified this rationale in relation to [redacted].

**8.70** We supply a full list of Mastercard fee changes with rationales including 'value' or 'competition' in Annex A, Table 2.

### Value

**8.71** As Figures 4 and 5 reveal, the value of the service and [redacted] are the rationales that we identified most frequently for Mastercard's fee changes. [redacted].

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42 Mastercard submitted that 'reflection of value' is not distinct from competition or addressing customer needs, and that the underlying impetus of value creation is a response to competitive pressure and customer needs, with fee changes generally being considered after changes to scheme services have been embedded and demonstrated to the ecosystem.

43 [redacted].

44 [redacted] one of the issuers responding to our information request explicitly mentioned them as examples of services that have been beneficial to itself and its customers. Stakeholder response to PSR information request dated 11 January 2023 [redacted].

45 [redacted].

46 [redacted].



- 8.72** In some cases, Mastercard refers to what other providers charge for similar services to assess the value of a service of its own.<sup>47</sup> In other cases, it does not identify any direct competitor and value is interpreted as the benefit a customer (or merchant) may receive from the service. In most of these cases, the assessment and measurement of value in these documents is generally qualitative in nature.<sup>48</sup>
- 8.73** An internal document on Mastercard Instalment Payment Services provides a slightly more explicit assessment of the relation between the proposed fee and the value of a service. At the time of the launch of this opt-in service ([redacted]), Mastercard considered the service 'new to some extent'<sup>49</sup>, so no competitive benchmark was used, at least for [redacted]. The minimum pricing proposed for these countries was based on [redacted]. The document, however, claims that this is 'still low with regards to the value of the services provided' and recommends that each country 'price the services appropriately'.<sup>50</sup>
- 8.74** In three cases among the fee changes we considered there is an attempt to quantify the value of a service:
- The first is the case of 3D Secure, an optional set of authentication services for issuers and acquirers. [redacted].<sup>51</sup>
  - The second case concerns the introduction of CNP pricing in Europe. This is a mandatory fee for acquirers and issuers. [redacted].<sup>52</sup> [redacted].<sup>53</sup>
  - The third case comes from an internal document related to the launch of Mastercard Linked Payment Loyalty Platform. The proposed fee structure is complex, involving payments to Mastercard from both issuers and merchants, and sharing of merchants' payments between Mastercard and issuers. [redacted].<sup>54</sup> [redacted].

## Competition

- 8.75** Based on our analysis of Mastercard's documents, we have identified three categories of services affected by fee changes in our selection for which competition is considered.

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47 This is the case for [redacted] and other related products that facilitate pre-chargeback collaboration. See Mastercard response to PSR questions dated 9 November 2022 [redacted], and [redacted].

48 This is the case, for example, with Mastercard Cyber Secure (see [redacted]) and [redacted] (see [redacted]) services, with Mastercard's Operational Reports (see [redacted]) and with Dynamic Currency Matching, a service that dynamically matches settlement activities by transaction currency (see [redacted]).

49 [redacted].

50 [redacted].

51 [redacted].

52 [redacted].

53 [redacted].

54 [redacted].

- 8.76** The first category includes optional scheme services where Mastercard competes primarily with third-party providers, and [redacted]. In these cases, Mastercard's documents analyse these providers' products and their price points. In our selection of fee changes, these products are:<sup>55</sup>
- services aimed at giving merchants the opportunity to [redacted]<sup>56</sup>
  - a [redacted]<sup>57</sup>
  - a service that allows businesses to [redacted]; this service is also aimed at [redacted], so competition also exists with [redacted]
- 8.77** The second category consists of a single optional scheme service: AI Account Intelligence (see paragraph 8.52). In this case, competition does not appear to be with third-party providers, but only with other card schemes. The service 'provides issuers relevant and actionable scores to help improve their business: identify the most important customers, those with relevant opportunities and timely action'.<sup>58</sup> The associated internal document states that the new service [redacted].<sup>59</sup> [redacted].
- 8.78** The third category includes core processing services. When Mastercard rebalanced its scheme and processing fees in 2017, one of its rationales was [redacted],<sup>60</sup> [redacted]. Competition on processing fees came either from domestic schemes operating in several European countries, or from 'integrated processors'. However, a report produced for Mastercard [redacted].<sup>61</sup> [redacted].<sup>62</sup> [redacted].<sup>63</sup> [redacted],<sup>64</sup> [redacted].<sup>65</sup>
- 8.79** [redacted].<sup>66</sup> [redacted]:
1. [redacted].
  2. [redacted]<sup>67</sup> [redacted].
- 8.80** In its response to the interim report, Mastercard contested our interpretation of the rationales for the difference in CNP fees between the UK and Ireland and the rest of Europe. Mastercard told us that there was 'extensive internal discussion and that the main issue raised by the UK&I division was the [redacted] of the alternative proposal. To minimise this risk, fees should not greatly differ between [redacted] transactions. The difference is therefore not one of "fee levels" but structure. [redacted].'<sup>68</sup> Mastercard submitted that our conclusion that the fee increase was impacted

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55 The offering of some (unnamed) competitors was also considered in relation to [redacted]. However, at the time the service was introduced in 2016, the UK was included in a group of countries where no similar service existed and where therefore Mastercard's [redacted] (see paragraph 8.73).

56 In this case, the documents also mention competition with [redacted]. See [redacted].

57 In this case, the document also mentions competition with [redacted]. See [redacted].

58 [redacted].

59 [redacted].

60 [redacted].

61 [redacted].

62 [redacted].

63 [redacted].

64 [redacted].

65 [redacted].

66 [redacted].

67 [redacted].

68 Mastercard response to MR22/1.9 (21 May 2024), page 66. See also Mastercard response to MR22/1.6 (30 June 2023), page 14.

by an alleged lack of competition cannot be sustained, as we have not proposed any alternative scenario. The only one that is implied by our analysis is one in which the UK would have been priced the same way as the rest of Europe. But this, Mastercard told us, is not a credible counterfactual because of the reasons explained above.<sup>69</sup>

**8.81** We are not convinced by Mastercard's explanation:

- First, the document shows that the increase in domestic CNP fees in the UK and Ireland [X].<sup>70</sup> So the difference was not just a matter of fee structure, but also of fee level.
- Second, as observed above, the document shows that at least part of the reason why Mastercard did not charge domestic CNP fees in the rest of Europe was the fact that in some European countries [X], which we note is not the case in the UK.<sup>71</sup>
- Third, the reason for [X] was to protect Mastercard's revenues, as clearly stated in the document.<sup>72</sup> We therefore do not agree that an alternative scenario in which the UK would have been priced the same way as the rest of Europe would not be credible. It would have resulted in lower revenue for Mastercard, but this is what we would expect in the presence of greater competition.

### Costs

**8.82** Some internal documents include specific data or considerations around the cost of the underlying services. In particular, margin information is provided in the documents relating to five fee changes. These can be divided into two groups:

- a group of four new optional services
- the rebalancing in 2017 of scheme and processing fees

**8.83** The internal documents include margin data on half the new optional services in our selection. The projected level of gross margin varies across these services from [X]% to [X]%. The services concerned are:

- **AI Account Intelligence:** This opt-out service to issuers was expected to generate a [X]% margin over five years.<sup>73</sup>
- **Mastercard Linked Payment Loyalty Platform:** This was expected to initially require rebates and discounts, [X]. Over [X] years from launch, however, the expected margin is [X]%.<sup>74</sup> The launch of this service was however unsuccessful and the product was discontinued.<sup>75</sup>
- **MasterCard Dispute Resolution – Claims Manager:** This product was also expected to have [X], but to generate an average gross margin of around [X].<sup>76</sup>

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69 Mastercard response to MR22/1.9 (21 May 2024), page 66.

70 [X].

71 [X].

72 [X].

73 [X].

74 [X].

75 Mastercard response to PSR questions dated 9 November 2022 [X].

76 [X].

- **Mastercard Instalment Payment Services:** The [redacted] document related to these services does not detail their costs, but indicates what price would be necessary [redacted].<sup>77</sup>

**8.84** We have also seen margin data on the 2017 rebalancing of scheme and processing fees before the two parts of Mastercard's business were separated (see Box 1 and paragraph 8.78). [redacted].<sup>78</sup> [redacted].

**8.85** The starting point of the price change was therefore the cost base of the [redacted] processing business, which was estimated at [redacted], including direct and indirect costs. [redacted] of this was labelled as 'Mastercard International Cost'.<sup>79</sup> The plan (according to the document) was to [redacted] across the Single Euro Payments Area (SEPA)<sup>80</sup>, with a [redacted] buffer that would have allowed Mastercard [redacted].<sup>81</sup> [redacted].

**8.86** Internal documents provide some cost information on two other fee changes. The first is the 'New Connectivity fee', which consisted of the restructuring of a mandatory processing fee (see Box 2 below).<sup>82</sup> An email sent to the person responsible for approving the fee change reports that [redacted] the relevant team 'forecasted total [redacted] Costs [redacted] to grow [redacted]% YoY.'<sup>83</sup> [redacted],<sup>84</sup> [redacted].

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77 [redacted].

78 [redacted].

79 [redacted].

80 [redacted].

81 [redacted].

82 [redacted]. Mastercard submitted that, in our analysis in Box 2, we have ignored that [redacted] were key elements of the rationale for the New Connectivity fee (Mastercard response to MR22/1.9 (21 May 2024), page 67). We note that Box 2 focuses on Mastercard's choice between three alternative price structures. The document in which the alternatives are assessed does not refer to [redacted]. The additional rationales mentioned by Mastercard are referred to in another document ([redacted]). These largely apply to all the options considered in Box 2, which differ only by the number of tiers, although we recognise that the one chosen was [redacted]. We have not ignored those rationales, which we included in the analysis behind Figure 4 and Figure 5 above.

83 [redacted].

84 [redacted].

### Box 2: Mastercard's New Connectivity fee

Starting from January 2023, Mastercard introduced the New Connectivity fee, replacing the former File Transmission, Connectivity and Back-Up Connectivity fees with a byte-based data usage fee. The documents Mastercard submitted in relation to this change are unique among the fee changes we analysed as they assess the pros and cons of alternative fee structures. They therefore allow us to understand why Mastercard chose a particular fee structure.

One of the documents compares three possible fee structures:

- [redacted]
- [redacted]
- [redacted]

Revenue estimates show that [redacted].

These differences are reflected in the pros and cons of each option mentioned in the document:

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

**8.87** The last fee change for which the internal document includes some cost information is the pricing revision for 3D Secure. The document reports that [redacted].<sup>85</sup> This is the only cost figure in the document, but it is unclear whether it represents the full investment required for the improved authentication service. [redacted].<sup>86</sup>

**8.88** In summary, we observe that:

- Cost data or considerations are never mentioned in internal documents on changes to mandatory scheme fees. Nor are they included in documents on existing optional scheme services – with the exception of authentication services, as discussed above.
- Internal documents on new optional scheme services do typically include cost considerations. Where they are not present, third-party prices are used as benchmarks.
- Cost considerations informed the price rebalancing for processing services in 2017. [redacted].<sup>87</sup> Cost considerations typically do not appear in the discussion of later changes or in documents regarding optional processing services – with the partial exception of the New Connectivity fee, as discussed above.

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85 [redacted].

86 [redacted].

87 [redacted].

## Customer engagement

- 8.89** Mastercard's engagement with customers in relation to fee changes typically takes place *after* it has already approved a change.<sup>88</sup> As Mastercard explains in its narrative response, 'Mastercard informs customers of the changes through its regular communication channel, Mastercard Connect. All customers will receive this communication before implementation. In addition, [redacted].'<sup>89</sup>
- 8.90** We identified only one instance among the fee changes we selected where, based on the documents Mastercard provided, customer feedback played a role in decision-making on a fee change: the introduction of the acquirer authentication exemption. Mastercard explained that [redacted].<sup>90</sup>

## Visa fee changes

- 8.91** Based on the information that we received from Visa, we estimate that the fee changes in our selection resulted in a combined expected increase in net revenue from UK customers in the order of £[redacted] million in annual net revenue.<sup>91</sup> As for Mastercard, this figure is an approximation. We have typically taken the revenue impact in the first full year of implementation of each fee change, despite the fact that the impact of many fees changes with time (because of changes in the overall volume or composition of card transactions, for example.) In addition, Visa also explained that [redacted], Visa provided a series of assumptions to help the PSR obtain an estimate of first-year revenue impact in the UK.<sup>92</sup>
- 8.92** [redacted].<sup>93</sup> [redacted].<sup>94</sup>
- 8.93** This section summarises the evidence we have received of Visa's changes to scheme and processing fees, under the following themes:
- **Optionality:** The incidence of mandatory, behavioural and optional fees in our selection, and the reasons why some services are made mandatory or opt-out.
  - **Geographic scope:** The extent to which fee changes are specific to the UK or apply to a wider region.
  - **Impact on acquirers and issuers:** The extent to which the fee changes in our selection affect issuers and acquirers and the revenue impact on the two sides.
  - **Rationales for fee changes:** An overview of the rationales mentioned in Visa's documents.

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88 Of course, the introduction of new optional services must be based on Mastercard's understanding of customers' demand for the service and on their willingness to pay.

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

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

91 Visa's estimates for the revenue impacts of fee changes are expressed in US dollars. In order to convert them into pounds, we have applied the yearly average exchange rate for the year in which the fee change was implemented, as computed by the Office for National Statistics. This may be different from the year in which the revenue was realised. For fee changes implemented in 2023, we have used the average exchange rate for 2022.

92 Comparing the absolute values of the revenue impact of Mastercard and Visa's changes selected for the analysis is not a meaningful exercise. The values depend, among other things, on how the selections were made and on the extent to which the estimates account for waivers or incentives. Moreover, the same proportional increase in fees would result in a larger total impact for the card scheme operator that accounts for the larger transaction value in the UK.

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

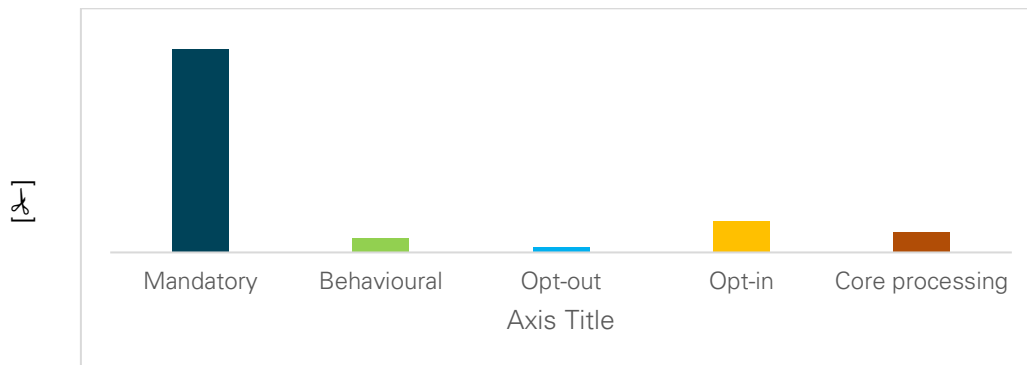
94 [redacted].

- **Competition:** A review of the fee changes for which competition is one of the stated rationales or is explicitly taken into account when setting the fee level.
- **Costs:** An analysis of the instances in which cost information is included in Visa's documents.
- **Customer engagement:** The extent to which Visa engages with customers and seeks their feedback on fee changes.

## Optionality

**8.94** Visa's response to us classified scheme fees as either mandatory, optional or behavioural. The changes to processing fees in our selection all relate to 'core processing': the fees are therefore unavoidable as long as the transaction is processed by Visa. While customers do not have to source processing services from Visa for transactions involving a Visa card, in practice nearly all Visa transactions accepted by a UK merchant are currently processed by Visa – that is, Visa authorises and clears/settles nearly all Visa transactions accepted by a UK merchant.<sup>95</sup>

**Figure 6: Revenue impact of selected fee changes by optionality (£m)**



**8.95** Many of the scheme fee changes in our selection relate to mandatory fees (see Figure 6). Visa has described these as 'core fees'. That is, they are not associated with any optional service but with the service that is the use of the Visa card scheme. These fees include CP and CNP service fees charged to acquirers, and cross-border scheme fees charged to acquirers and issuers (see Box 3).<sup>96</sup>

<sup>95</sup> See Visa response to PSR questions dated 9 November 2022 [3].

<sup>96</sup> The analysis in Box 3 is based on Visa response to PSR questions dated 9 November 2022 [3].

### Box 3: Changes to Visa's international fees

Changes to international fees account for [3] % of the revenue impact of the changes we analysed to Visa's mandatory fees. These include:

- Changes implemented between 2017 and 2020 to fees charged to acquirers:
  - the International Acquiring Fee, charged on CP and CNP international transactions, increased from 30 to 45 bps in 2017
  - the International Service Assessment Fee, charged only on CNP international transactions, increased from 10 to 55 bps between 2018 and 2020
- The introduction in 2021 of cross-border fees for transactions between the UK and the EEA, whose levels were set lower than those applying to other international transactions:
  - the International Acquiring Fee was set at 10 bps for CP transactions and at 25 bps for CNP transactions
  - the Issuer International Service Assessment Fee varied between 10 and 50 bps depending on the type of transaction and card

International transactions were also part of the changes to Visa's acquirer core processing fees introduced in 2018\*. At a European level, the changes resulted in an expected gross revenue increase from intra-regional and inter-regional transactions both being nearly [3] times those of domestic transactions [3]. These figures, however, do not account for the expected provision of incentives to the customers most affected by the increases.

\* Visa submitted that some of these changes were related to its transition from a member association to a commercial entity as a result of the acquisition of Visa Europe by Visa Inc.

**8.96** Among the fee changes we selected for our analysis, only one related to an opt-out service. Visa Analytics Platform (VAP) is a self-service, web-based analytics solution, providing Visa clients (in this case, issuers, co-brand merchants and acquirers) with data on payments and customer behaviour. This is also the only case in our selection where Visa moved away from a product that was offered on an opt-in basis to a new product that was offered on an opt-out basis. Visa explained to us that, in this case, VAP replaced a previous opt-in service (known as Visa Vue Online) and offered a 'more comprehensive and integrated data solution'.<sup>97</sup> Visa explained to us that [3].<sup>98</sup> [3].<sup>99</sup>

**8.97** Of the three changes to opt-in fees in our selection, 3D Secure fees account for the vast majority of the revenue impact.

**8.98** The combined revenue impact of the behavioural fees in Figure 6 reflects the removal of a behavioural fee in 2021 that was previously charged to issuers. This change resulted in a reduction in revenue of approximately £[3] million.

97 Visa response to PSR questions dated 9 November 2022 [3].

98 Visa response to PSR questions dated 9 November 2022 [3].

99 Visa response to PSR questions dated 9 November 2022 [3].



**8.99** Based on our analysis, recently introduced behavioural fees tend to have a [£] revenue impact. An exception is [£].<sup>100</sup> [£].

### Geographic scope

**8.100** Most of the fee changes in our selection were made at the European level and did not differentiate between the UK and other European countries.

**8.101** There is a clear difference between changes to mandatory fees introduced in 2017 to 2018 and those introduced in 2020 to 2021. Fees in the first group were mainly aimed at [£]<sup>101</sup> and were therefore introduced across Visa's Europe region. [£]. The more recent fee changes, [£], included a component specific to the UK, or the UK and Ireland.

**8.102** The three changes to mandatory fees for the period 2020 to 2021 are as follows:

- A revision of the acquirer service fees. The fee levels for CP transactions were determined based on the circumstances in each country within the Visa Europe region<sup>102</sup>, while fees for CNP transactions were implemented uniformly across Visa's Europe region.
- A 'freeze' on the increase in acquirer service fees for some categories of merchants (the Everyday Spend programme discussed in paragraph 8.121), specific to the UK and Ireland.
- The changes to UK-EEA cross-border fees in 2021.

**8.103** Changes to optional fees were generally introduced at the level of Visa's Europe region. The only exception among the fee changes we analysed is [£].

**8.104** All behavioural fee changes in our selection were [£].

### Impact on acquirers and issuers

**8.105** Most of the fee changes in our selection only affect acquirer-side fees. Of the 15 changes to scheme fees, 14 affect fees charged to acquirers and only 6 modify fees charged to issuers. The difference is more pronounced if we focus on the 8 changes to mandatory fees. These all affect acquirer-side fees, and only one also relates to issuer-side fees. The side affected by changes to optional fees depends on which type of customers the related service is offered to.

**8.106** The changes to core processing fees in our selection are only charged to acquirers. [£]<sup>103</sup> [£].

**8.107** The difference between acquirers and issuers is even more striking in terms of the revenue impact from the changes in our selection, as shown in Figure 7 below. The data provided by Visa allows us to separate the impact on acquirers and issuers for most of the fee changes we selected. If we consider only those changes for which the impact can be split, changes on the issuer side led to an aggregate reduction of fee revenue for Visa.

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100 [£].

101 Visa response to PSR questions dated 9 November 2022 [£].

102 [£].

103 [£].

### Figure 7: Revenue impact of selected fee changes by type of customer (£m)

[2]

**8.108** In relation to the types of cards affected by the changes, most of the changes in our selection do not differentiate between debit and credit cards. There are only three changes to mandatory fees which introduce differentiated charges for debit and credit cards:

- The introduction of flat acquiring fees in 2017, replacing a formerly tiered structure. The fee levels were set at 1 bps for debit transactions and 1.4 bps for credit transactions.
- Further changes to acquiring fees in 2020, which increased by 0.8 bps for debit transactions and 0.9 bps for credit transactions.<sup>104</sup>
- The introduction of cross-border fees for transactions between the UK and the EEA. This change only differentiated between credit and debit transactions on issuer-side fees on CNP transactions. These account for a small proportion of the overall revenue impact of the fee change.

**8.109** The internal documents on all the changes we examined do not assess the impact of any change separately for different types of cards.

#### Rationales for fee changes<sup>105</sup>

**8.110** Fee changes can involve either a revision of fees on existing services or the introduction of new fees, often alongside the launch of new or improved services. Among the fee changes we selected, the frequency of these two cases varies between mandatory and optional fees:

- None of the increases in mandatory fees in our selection was in response to the introduction of new services – although Visa explained that the underlying services have undergone continued improvements.
- Increases to opt-in or opt-out fees often followed the introduction of new services or significant improvements to existing ones. The only exception is the introduction, in April 2023, of a fee for Cardholder Verification Value (CVV2), an opt-in service that was previously provided free of charge.

**8.111** Some of the fee changes with the largest revenue impact among those we analysed were implemented from 2017 to 2018. Visa explained that these fee increases were in part due to the Visa Europe's transition away from a member association to a commercial entity after being acquired by Visa Inc.<sup>106</sup> A further significant fee increase took place in 2020, affecting CP and CNP service fees which had already increased three years prior in 2017.

**8.112** In the documents we received, Visa does not always make the rationale for fee changes explicit. [2]. The analysis in this section is therefore largely based on Visa's narrative response, with input from a handful of internal documents. Based on our interpretation of the documents and on Visa's narrative response, we have grouped the rationales that emerge into ten categories. In Figure 8 below, the length of each bar corresponds to the combined revenue impact of the fee changes from our selection that fall into each

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<sup>104</sup> [2].

<sup>105</sup> The results presented in this section are slightly different from those included in the Fee changes working paper as we re-assessed the rationales for some of the fee changes in light of Visa's response to the Fee changes working paper.

<sup>106</sup> Visa response to PSR questions dated 9 November 2022 [2].

category.<sup>107</sup> Figure 9 shows the number of fee changes to which each of these rationales apply. As fee changes can have more than one rationale, the same fee change, and the associated revenue impact, can be included under multiple rationales.

**8.113** In some cases, our assessment diverges from the rationales Visa identified in its narrative response. This is particularly the case for the rationale that we label 'responding to/accounting for competition'. We have excluded from this category several services for which Visa mentioned 'competitive offering' as a motive for fee changes. We discuss the reason for this in paragraphs 8.117 to 8.120.

**Figure 8: Revenue impact of selected fee changes by rationale (£m)**

[2]

**Figure 9: Number of selected fee changes by rationale**

[2]

**8.114** The ten rationales are described in more detail below:

- 1. Simplifying the fee structure:** We identified this rationale in relation to several changes to mandatory scheme fees and core processing fees. These changes have typically been designed to remove tiering of fees or to apply the same fee level to types of transactions previously charged at different rates to different clients. We accept that this can be helpful to customers – something confirmed by one acquirer, which told us that Visa's replacement of a tiered structure with a flat rate, made the fee simpler to understand and implement, as the tiered rate had varied each month.<sup>108</sup> This rationale applies to the structure of a fee, rather than to its level.
- 2. Transition to commercial entity:** We identified this rationale in relation to mandatory scheme fees and core processing fees implemented in 2017 and 2018, which followed the acquisition of Visa Europe by Visa Inc.<sup>109</sup> In its narrative response, Visa also mentions this as one of the rationales for a further change to mandatory acquirer fees in 2020.
- 3. [2]:** We identified this rationale in relation to several fee changes, including the fee changes implemented in 2017 to 2018 and also some of the later fee changes.
- 4. Avoiding arbitrage:** We identified this rationale in relation to changes to mandatory fees that harmonised the fee structure, eliminating incentives for customers to 'mis-report' the nature of transactions to take advantage of a lower fee.
- 5. Reflecting value of the service:** We identified this rationale in relation to the four changes involving the introduction of an optional service. In these cases, the fee is set at a level considered consistent with the value of the service. The same rationale is also mentioned in documents relating to the change to core processing fees, which aimed at charging for different processing services (authorisation, clearing and settlement) according to the value customers received.<sup>110</sup> The documents often

<sup>107</sup> In some cases, a single fee change may include several components, and a specific rationale may apply to only one of those components. The revenues in the chart, however, represent the overall impact of fee changes. As such, the chart may show some of the rationales as associated to a larger revenue impact than they would in practice.

<sup>108</sup> Stakeholder responses to PSR information request dated 11 January 2023. [2].

<sup>109</sup> Visa response to PSR questions dated 9 November 2022 [2].

<sup>110</sup> [2].

include a qualitative description of how customers benefit from a service, but only in one case do they include an estimate of the value customers receive.

6. **Creating a level-playing field:** We identified this rationale in relation to changes that replaced tiered fees with flat fees. This removed a potential competitive advantage previously given to larger acquirers. The rationale only applies to the structure of a fee, rather than to its level.
7. **Responding to customer need/creating value:** We typically identified this rationale in relation to the introduction of new optional services, although the documents do not explain how Visa assessed customer need. The rationale also appears in relation to the elimination of a behavioural fee previously charged to issuers, who had provided feedback that they had little control over the drivers of that fee.<sup>111</sup>
8. **Incentivising transition to a new product:** We identified this rationale in relation to one fee change in our selection, the introduction of a fee on 3D Secure in 2019.<sup>112</sup> [X].
9. **Encouraging change of behaviour:** We identified it as the main rationale in relation to the behavioural fees in our selection. Visa explained to us that these fees are aimed at encouraging behaviours that improve security and system integrity, and are expected to improve the efficiency of the overall ecosystem. It is also mentioned (among other rationales) in relation to one opt-in service, Cardholder Verification Value (CVV2), for which a fee was introduced only when the service is used in the absence of tokenisation or 3DS. One of the stated purposes was to 'help to drive Acquirer behavior towards use of tokenized PANs and 3DS'.<sup>113</sup>
10. **Responding to/accounting for competition:** Competition [X] are explicitly mentioned in documents relating to several of the fee changes in our selection. A more detailed analysis of these instances is developed in paragraphs 8.116 to 8.122.

**8.115** We supply a full list of Visa fee changes with rationales including 'value' or 'competition' in Annex A, Table 5.

### Competition

**8.116** Internal documents relating to several of the fee changes mention competition [X]. The nature of competition and the identity of the relevant competitors vary across different types of fees.

**8.117** Commenting on changes to mandatory fees charged on acquirers included in our selection, Visa's narrative response explains 'decisions on pricing are taken in the context of the competitive environment within which we operate. We understand that merchants have a range of options available to them to complete transactions. Many merchants can and will opt for alternative payment methods if they prefer the alternatives compared with card transactions.' It appears clear from the cases we analysed that this constraint has not prevented Visa from making substantial increases to mandatory fees.<sup>114</sup> It is important to understand what 'competition' means in these contexts.

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<sup>111</sup> [X].

<sup>112</sup> [X].

<sup>113</sup> [X].

<sup>114</sup> Given the generality of the statement on the competitive environment, in Figure 7 these fee changes have not been included under the 'responding to / accounting for competition' rationale unless the relevant documents explicitly mention competition as a constraint to Visa's ability to increase the fee.

**8.118** [redacted].<sup>115</sup> [redacted].<sup>116</sup> [redacted].<sup>117</sup> [redacted].<sup>118</sup>

**8.119** [redacted].<sup>119</sup> [redacted].

**8.120** When classifying, in Figures 8 and 9, the fee changes for which Visa's documents mention 'competition', we have not included [redacted].

**8.121** There is one case among the fee changes we selected where the documents explain a freeze on fee increases with reference to competition from alternative payment methods. Visa introduced the 'Everyday Spend' programme in 2020 alongside the increase in the acquirer service fees discussed above, freezing that increase in the UK and Ireland for transactions where the merchant belonged to certain categories, including grocery stores, service stations, utilities, charities, local commuter transport, tax payments, etc. [redacted]. An internal document discussing the introduction of 'Everyday Spend' states that 'the existence of this program ensures that cards are priced competitively vs other forms of payment (e.g. Open Banking).'120 In its narrative response, Visa explains that it 'considered that increasing service fees in the UK (and Ireland) could result in a shift in demand for services.'121 This suggests that the willingness to pay for card services may be lower for these types of merchants. The document states that [redacted].<sup>122</sup>

**8.122** One last mention of competition appears in relation to the introduction of Visa Instalments. This was a new opt-in product that enables issuers and merchants to offer instalment plans to cardholders at checkout. In this case, the relevant competitors are [redacted].

### Costs

**8.123** The documents Visa submitted generally do not include data on either profit estimates or costs for the scheme or processing services concerned. Even when some cost considerations do appear, they are very generic. For example, in a document discussing the introduction of a fee on 3D Secure, the only considerations are: 'Visa [redacted] incurs operational cost [redacted].'<sup>123</sup> No indication is provided on the level of these costs. The only exception is a document on Visa Instalments, which indicates [redacted].<sup>124</sup>

**8.124** Documents discussing changes to processing fees in 2018 state that [redacted].<sup>125</sup> [redacted].<sup>126</sup>

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115 Documents discussing the changes that Visa introduced in 2017 [redacted] also mention competition: one of the stated principles followed in elaborating the proposed changes is 'ensuring pricing is competitive in the marketplace' [redacted].

116 [redacted].

117 [redacted].

118 [redacted].

119 [redacted].

120 [redacted].

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

122 [redacted].

123 [redacted].

124 [redacted].

125 [redacted].

126 [redacted].

## Customer engagement

- 8.125** The internal documents submitted by Visa do not mention seeking direct input from customers before deciding whether to introduce a fee change.<sup>127</sup> In its narrative response, [redacted].<sup>128</sup>
- 8.126** Customer engagement is therefore typically limited to discussions of fee changes that Visa has already decided. 'Depending on the client and the nature of the fee change, client engagement activities can include discussions regarding fees (or changes to fees) that have been announced but not yet implemented. Such discussions enable Visa to provide clarifications in relation to the fee change and its implementation. Visa aims to provide 6 to 12 months advance notice (and sometimes longer) between the announcement of a fee change and the date it becomes effective to allow clients time to make any relevant preparations. This also allows such conversations to occur, although a standardised process for such engagement does not exist.'<sup>129</sup> In its narrative response on processing fees, [redacted].<sup>130</sup>
- 8.127** Visa also explained that there are mechanisms through which it can receive and consider customer feedback. For example, in relation to behavioural fees, Visa told us [redacted].<sup>131</sup>
- 8.128** One case in our selection where customer feedback played a role in a fee change decision was the replacement of the Negative Response Fee (NRF) with the Minimum Approval Rate Integrity Fee for debit transactions (Debit MAR). The NRF was a behavioural fee first introduced in 1995. It was paid on a per-transaction basis by non-US issuers for every 'negative response' received for transactions acquired by a US acquirer. The Debit MAR is also intended to increase issuer approval rates but is levied on issuers depending on their number of eligible Bank Identification Numbers (BINs) that fail to meet the minimum approval rates. In this case, Visa explained that [redacted].<sup>132</sup> [redacted].<sup>133</sup>

## Our assessment

- 8.129** This section sets out our assessment on how the two scheme operators approach fee changes, based on the evidence discussed above.
- 8.130** This analysis has some limitations and provides only a partial view of the competitive conditions faced by Mastercard and Visa. Nevertheless, we can observe that:
- The increase in revenue expected from the fee changes considered comes mainly from acquirers rather than from issuers. The asymmetry is particularly marked for mandatory services.
  - The rationale most commonly mentioned in the documents is 'reflecting the value of the service'. In most cases, however, the documents do not include any quantitative estimate of this value.

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127 Of course, the introduction of new optional services must be based on Visa's understanding of customers' demand for the service and on their willingness to pay.

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

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

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

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

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

133 [redacted].

- Competition does not appear to have been an impediment to implementing material increases in mandatory fees – which comprise the majority of the fee changes we considered.
- The documents typically do not include data on the costs associated with the scheme and processing services affected by fee changes.

## Scope of the analysis

- 8.131** This annex focuses on the analysis of Mastercard's and Visa's documents related to the approval of fee changes. Looking at how Mastercard and Visa make these decisions provides useful information on the competitive constraints they are subject to. The analysis this annex presents is not a full assessment of the competitive constraints faced by Mastercard or Visa, which is set out in Chapters 4 and 5 of the final report.<sup>134</sup> The analysis can help us understand how issues such as value, costs or competition informed Mastercard and Visa's decisions. They can also reveal the central considerations for a specific decision. For example, if a document refers at length to the value provided by a service but does not mention its cost, we can conclude that value considerations were deemed the more important factor when deciding the new level of the fee.
- 8.132** There are, however, some limitations to our analysis. We focused on documents prepared for final decision-makers. However, the process leading to the implementation of a fee change is typically more complex, involving several teams within Mastercard or Visa, as explained in paragraphs 8.29 to 8.34 and 8.36 to 8.41. [redacted]. Mastercard told us that [redacted].<sup>135</sup> This means that the absence of references to a particular issue in the documents does not necessarily imply that it was ignored in the decision to implement a fee change.
- 8.133** Moreover, by selecting the fee changes with the largest revenue impact in the UK, we have implicitly privileged cases in which competitive constraints may have been less pressing. It is plausible that, in the presence of competitive constraints, Mastercard and Visa may have decided against large increases of certain fees. Our selection would tend to exclude those cases, as those fee changes would tend to have a smaller revenue impact. For this reason, the analysis in this annex should not be interpreted as a characterisation of Mastercard's or Visa's decision-making process for all fee changes, but simply as an assessment of the features and underlying rationales of the largest fee changes implemented in the period 2017-21.

## Optionality and impact on acquirers and issuers

- 8.134** There is a clear prevalence of mandatory fees in the selection we analysed. The changes with the largest impact on non-mandatory fees are those related to authentication services and behavioural fees aimed at promoting the adoption of tokenisation or 3D Secure.

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<sup>134</sup> These chapters are each based on the evidence discussed in the various annexes. We note the references to previous submissions made by Mastercard in its response to the Fee changes working paper (page 3) and we have considered those submissions in the context of our wider assessment of competitive constraints. Similarly, we note the background on the competitive landscape and the reference to previous submissions included in Visa's response to the Fee changes working paper (pages 2-6) and we have considered them as part of our wider analysis of competitive constraints.

<sup>135</sup> Mastercard provided three examples of cases (not among those included in our selection) in which competitive constraints were considered in the informal discussions leading to the elaboration of the final pricing proposal but were not explicitly mentioned in the proposals themselves (Mastercard response to the Fee changes working paper, pages 11-12).



- 8.135** The changes to mandatory fees included in our selection often have a UK or UKI-specific component, especially in relation to domestic and/or CP transactions. As observed, for example, in paragraph 8.147, this is likely to reflect differences in competitive conditions between the UK and other European countries. Changes to optional fees, meanwhile, tend to be applied uniformly across Europe, as optional services are typically introduced at the European or global level and priced consistently across the region.
- 8.136** The increase in revenue expected from the fee changes in our selection comes mainly from acquirers rather than from issuers. The asymmetry was particularly marked for mandatory services.
- 8.137** We examined the decisions on whether a given service should be mandatory, opt-out or opt-in. Mandatory services are typically central to the working of the scheme or are characterised by significant network effects – that is, their adoption benefits not only the customer using them, but the ecosystem as a whole. New services were typically made opt-out to avoid disruption to customers who were using the legacy services they replaced or versions of the services previously offered free of charge.<sup>136</sup> Several customers of various size had decided to opt out of these services.

### Rationales for fee changes – value, competition, costs

- 8.138** At the beginning of the period we considered, Visa Europe was transitioning away from a member association and towards a commercial model, after being acquired by Visa Inc. Some fee changes in 2017 and 2018 were implemented partly to align Visa Europe more towards the pricing practices that Visa Inc. had adopted in other regions. The result was a significant increase in acquirer-side mandatory fees. Mastercard did not undergo any comparable changes in the period.
- 8.139** Other than this, the rationales that Mastercard and Visa mentioned in their responses or that we deduced from their documents are similar. Three of them are particularly relevant to our analysis:
- reflecting value of the service
  - responding to customer need/creating value
  - responding to/accounting for competition

#### Value

- 8.140** One of the most common rationales for fee changes in the documents is that they reflect the value of the service. This is the case for 23 of the changes included in our selection across both Mastercard and Visa. It is particularly true for fee changes associated with a specific service, as opposed to fees for participation in the scheme. In most cases, however, the documents do not include any quantitative estimate of this value. There were only four instances of a more formal assessment that informed the level or the structure of a fee.
- 8.141** Mastercard told us that: (i) precisely quantifying the value derived from improved or new services can be a complex and time-consuming task; and (ii) in practice, however, much of the time this will not be necessary, since the qualitative assessment made through

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<sup>136</sup> In one case, the reason for making a service opt-out was that it was under-utilised. However, it is not clear why under-utilisation of a service, in the absence of externalities, would be a valid reason to make the service opt-out.



Mastercard's ongoing engagement with customers provides the insight and information needed for effective decision-making.<sup>137</sup>

- 8.142** Both Mastercard and Visa engaged with customers primarily after approving a fee, rather than as part of the work that leads to a fee change proposal. Acquirers who responded to our information request consistently made this point.<sup>138</sup> However, when introducing optional new services, Mastercard and Visa need to have some understanding of demand and of customers' willingness to pay, likely as a result of their regular interaction with them. One customer told us that, particularly in relation to new products or services, there are occasions when Mastercard and/or Visa will seek input from the ecosystem.<sup>139</sup>
- 8.143** The documents rarely mention 'creating value' as an explicit aim for a new fee, except when discussing new optional services. However, this does not necessarily mean that there was no aim of providing more valuable services to customers. An issuer told us that scheme fees are just one of the revenue streams which allow Mastercard and Visa to re-invest and improve the service for customers: 'it is uncommon and potentially misleading for a scheme to announce specific service improvements on the back of individual fee changes.'<sup>140</sup> Another issuer noted that general increases to scheme and processing fees are typically accompanied by broad statements that such changes are necessary for continued investment into innovation, security or network resilience.<sup>141</sup> Some of the documents we reviewed explicitly mentioned the need to generate revenue for investments as one of the aims of a fee increase.
- 8.144** It may also sometimes be difficult to distinguish between 'creating value' and 'reflecting value', which is a more commonly expressed rationale for fee changes. An acquirer told us that the card schemes typically 'offer services first free of charge to allow for the market to adapt. At a later point in time, the payment networks introduce pricing and require payment for those services. Therefore, the scheme-level innovations at the time of the fee introductions are less relevant as the services are already adapted, accepted, and needed in the market.' The acquirer added that such scheme-level innovative services often enhance the quality and security of payments.<sup>142</sup>
- 8.145** In response to the Fee changes working paper, some stakeholders commented on the value associated with fees or fee changes. In particular:
- One merchant submitted that, while occasional changes to card scheme fees are required to maintain security features and upgrade systems, currently fee increases are regular and often do not appear to result in improved products or services.<sup>143</sup> Similarly, a merchant association submitted that, often times, when fee changes are introduced, retailers see no difference in the service they are receiving.<sup>144</sup>

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137 Mastercard response to the Fee changes working paper, page 22.

138 Stakeholder responses to PSR information request dated 11 January 2023 [3]. Some acquirers stated that, even when feedback is provided by acquirers after the announcement of a fee change, it does not lead to changes in the fee, but at most in temporary waivers [3].

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

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

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

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

143 Stakeholder response to the Fee changes working paper [3].

144 Stakeholder response to the Fee changes working paper [3].

- Another merchant told us that it is difficult to say if the fee levels are commensurate with the value provided, as the two scheme operators can charge different fees for what is, at face value, the same service.<sup>145</sup>

## Competition

**8.146** The documents reviewed often mention competition for issuers, acquirers or merchants, or simply the need for a fee to be ‘competitive’. Moreover, as discussed in paragraph 8.132, the fact that competitive constraints are not considered in a pricing proposal does not necessarily mean that they had not been considered in the informal discussions that led to that proposal. Nevertheless, competition does not appear to have been an impediment to implementing material increases to mandatory fees – which comprised the majority of the fee changes we considered. Fee changes where competition was a more immediate factor can broadly be grouped into three categories:

- Decisions involving the introduction of, or changes to, value added services (for example, instalment solutions, dispute resolution services, loyalty schemes), where competition is typically with third-party providers of similar services.
- One case related to the introduction of an optional service to issuers, which contributes to the scheme’s overall competitiveness in attracting issuers.
- Mastercard’s 2017 rebalancing of processing fees. [redacted].<sup>146</sup> We note, [redacted].

**8.147** Documents from Mastercard also provide evidence that [redacted].

## Costs

**8.148** The documents do not typically include data on the costs associated with the scheme and processing services affected by fee changes, except for the introduction of new optional services. This, however, does not necessarily mean that covering costs is not an important factor in fee increases. For businesses mainly characterised by fixed costs, often common to multiple services, it may be superfluous to analyse costs explicitly when approving incremental fee changes.

**8.149** The documents suggest a high profitability target for new optional services, with expected gross margins between [redacted] and [redacted]%, [redacted]. These figures, however, represent ex-ante expected profits and should be interpreted with caution. First, ex-ante revenue must account for the possibility of failure. As one example among the fee changes in our selection shows, failure is a real possibility (see paragraph 8.83). Second, it is not uncommon in commercial organisations for management to be over-optimistic when estimating the expected profitability of new projects.<sup>147</sup>

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145 Stakeholder response to the Fee changes working paper. [redacted].

146 [redacted].

147 These two factors are typically reflected in hurdle rates – i.e. the minimum rate of return required for a company to move forward on a project – being set significantly higher than a company’s cost of capital.

## Annex A

### Fee changes selected for the analysis

#### Mastercard fee changes

- 8.150** Table 1 below lists Mastercard's fee changes selected for our analysis. It shows the year in which each was carried out, whether they affected scheme or processing fees, and whether the fee was mandatory, opt-out, opt-in, or behavioural.
- 8.151** Table 2 provides information on some of the rationales for these fees, as they appear in Mastercard's documents and narrative response. In particular, the table indicates fee changes for which the rationales were 'reflecting the value of the services', 'creating value for customers', or 'responding to or accounting for competition.'
- 8.152** Table 3 provides a short description of these fee changes.
- 8.153** There is no unique way of identifying individual fee changes. Some change 'events' include several different changes decided and implemented at the same time. Some changes also affect several related fees. We have distinguished fee changes belonging to the same change 'event' if they affect unrelated fees, but we have listed changes to multiple related fees as a single change.

**Table 1: Year of implementation and optionality of Mastercard selected fee changes**

Fee change	Year of implementation	Scheme/processing	Optionality <sup>148</sup>
Operational Reports – 2016 Pricing Recommendation	2016	scheme	opt-in
Mastercard Instalment Payment Services	2016	scheme	opt-in
MasterCard Dispute Resolution – Claims Manager	2017	scheme	opt-in
Switch Pricing Strategy & Pricing Proposal	2017	scheme and processing	mandatory
Activating Scheme Fees on Credits>Returns in Europe	2018	scheme	mandatory
Introducing Card Not Present pricing in Europe	2018	scheme	mandatory
Revised Authentication Pricing	2018	scheme	opt-in
Accountholder Authentication Value (AAV) pricing	2019	scheme	opt-in
Introducing a new Acquiring Dynamic Currency Matching Fee (DCMF) and decreasing Multi-Currency Settlement Fee (MCSF)	2019	scheme	opt-in
Non-EMV non-contactless fee	2019	scheme	behavioural
Accountholder Authentication Value (AAV) validation fee change and opt-out introduction	2019	scheme	opt-out
Mastercard Working Capital Control	2019	scheme	opt-in
Pilot Pricing for New Mastercard Linked Payment Loyalty Platform	2019	scheme	opt-in
Transaction Investigator and Portfolio Analytics	2019	processing	opt-out
MOTO drivers revision	2020	scheme	mandatory
3DS1-only fees	2020	scheme	opt-in
Mastercom Claim Manager pricing – full activation	2020	scheme	opt-in
Safetynet enhancement	2020	scheme	mandatory

148 The classification is based on our assessment and partly diverges from the one submitted by Mastercard.

Fee change	Year of implementation	Scheme/processing	Optionality <sup>148</sup>
Operational Reports 2019 Pricing Action	2020	scheme	opt-in
Acquirer authentication exemption	2021	processing	opt-in
Mastercom Acquirer Collaboration	2021	scheme	opt-in <sup>149</sup>
AI Account Intelligence	2021	scheme	opt-out
Acquiring Volume Fee revision and Minimum Volume Fee Elimination	2021	scheme	mandatory
Mastercard Cyber Secure	2021	scheme	mandatory
New Connectivity Fee	2023	processing	mandatory

**Table 2: Mastercard fee changes whose rationales include ‘value’ or ‘competition’**

[2]

**Table 3: Description of Mastercard fee changes and associated services**

Fee change	Description
<b>Operational Reports – 2016 Pricing Recommendation</b>	Revised the pricing of reports offered to acquirers and issuers
<b>Mastercard Instalment Payment Services</b>	Introduced a new product for merchants, issuers and acquirers, providing a suite of options for allowing cardholders to pay in instalments
<b>MasterCard Dispute Resolution – Claims Manager</b>	Fee change associated with enhancements made to the Mastercom product, which allows to manage chargebacks and is offered to acquirers and issuers
<b>Switch Pricing Strategy &amp; Pricing Proposal</b>	Revised the pricing of most of Mastercard’s major mandatory fees for issuers and acquirers (see Box 1)
<b>Activating Scheme Fees on Credits&gt;Returns in Europe</b>	Extended scheme fees to credit transactions, which take place, for example, in case of cancellations of purchased goods or services
<b>Introducing Card Not Present pricing in Europe</b>	Introduced a specific fee on the acquirer and the issuer side charged for card-not-present (CNP) transactions
<b>Revised Authentication Pricing</b>	Revised the pricing of the Mastercard identity check program, a service offered to issuers and acquirers for authentication of consumers in CNP transactions
<b>Accountholder Authentication Value (AAV) pricing</b>	Changed pricing for authentication solutions for issuers, performing a check on the token created by the acquirer through Strong Customer Authentication (SCA)
<b>Introducing a new Acquiring Dynamic Currency Matching Fee (DCMF) and decreasing Multi-Currency Settlement Fee (MCSF)</b>	Changed pricing on currency settlement options for acquirers
<b>Non-EMV non-contactless fee</b>	Introduced a fee on transactions originating from POS (and ATM) terminals that do not comply with EMV Contact and Contactless Chip standards
<b>Accountholder Authentication Value (AAV) validation fee change and opt-out introduction</b>	Converted Mastercard’s AAV solution from an opt-in to an out-out service

149 An issuer-side component of the fee is mandatory.

Fee change	Description
<b>Mastercard Working Capital Control</b>	Introduced a new business-to-business product to issuers allowing buyers to make payments using a commercial Mastercard card while ensuring that payments go directly into the suppliers' bank accounts
<b>Pilot Pricing for New Mastercard Linked Payment Loyalty Platform</b>	Introduced a new loyalty service for issuers and merchants allowing cardholders to use their payment cards to collect and use merchant-funded loyalty points
<b>Transaction Investigator and Portfolio Analytics</b>	Introduced two new services for acquirers. Transaction Investigator is a web-based tool using secure data to research, and assist in resolving, disputes arising from credit and debit fraud. Portfolio Analytics is a service that provides acquirers with access to insights extracted from Mastercard transaction data
<b>MOTO drivers revision</b>	Extended the MOTO fee on acquirers to transactions in which the cardholder location is reported as 'unspecified' or 'unknown'
<b>3DS1-only fees</b>	Aligned the fee on the legacy 3D Secure 1.0 product with that on the newer identity check service (see 'Revised Authentication Pricing' above)
<b>Mastercom Claim Manager pricing – full activation</b>	Aligned the fee on the legacy Mastercom platform with that on the improved 'Claims Manager' service
<b>Safetynet enhancement</b>	Fee change associated with an enhancement to a service allowing issuers to monitor the transactional traffic of Mastercard's network and avoid large-scale fraud events
<b>Operational Reports 2019 Pricing Action</b>	Revised the pricing of reports offered to acquirers and issuers
<b>Acquirer authentication exemption</b>	Introduced a new service allowing acquirers to request an SCA exemption by informing the issuer through use of an 'acquirer exemption indicator'
<b>Mastercom Acquirer Collaboration</b>	Fee change associated with a new functionality to the Mastercom product allowing merchants without a direct connection with issuers to use pre-chargeback collaboration
<b>AI Account Intelligence</b>	Fee change associated with a new service providing issuers with predictive scores to aid in preventing and mitigating fraud and security risks
<b>Acquiring Volume Fee revision and Minimum Volume Fee Elimination</b>	Revised the mandatory volume fee for acquirers.
<b>Mastercard Cyber Secure</b>	Fee change associated with an enhancement allowing issuers and acquirers to review, detect and act on cyber vulnerabilities
<b>New Connectivity Fee</b>	Replaced File Transmission, Connectivity and Back-Up Connectivity fees with a byte-based data usage fee

## Visa fee changes

- 8.154** Table 4 below lists Visa's fee changes selected for our analysis. It shows the year in which each was carried out, whether they affected scheme or processing fees, and whether the fee was mandatory, opt-out, opt-in, or behavioural.
- 8.155** Table 5 provides information on some of the rationales for these fees, as they appear in Visa's documents and narrative response. In particular, the table indicates fee changes for which the rationales were 'reflecting the value of the services', 'creating value for customers', or 'responding to or accounting for competition'.
- 8.156** Table 6 provides a short description of these fee changes.

**Table 4: Year of implementation and optionality of Visa selected fee changes**

Fee change	Year of implementation	Scheme/processing	Optionality
Alignment of International Acquiring Fees	2017	scheme	mandatory
Introducing flat acquiring scheme fees	2017	scheme	mandatory
Alignment of Domestic and Intra CNP	2017	scheme	mandatory
Alignment of International CNP	2017	scheme	mandatory
Alignment of international CNP fees to global price structure	2018-2020	scheme	mandatory
Core Processing Pricing	2018	processing	core processing
VbV/3DS Fees and 3D Secure Pricing (Issuer Attempts fee)	2019	scheme	opt-in <sup>150</sup>
Acquirer Service Fee	2020	scheme	mandatory
Everyday Spend	2020-2021	scheme	mandatory
Visa Analytics Platform	2020	scheme	opt-out
System Integrity Fees	2020	scheme	behavioural
Visa Instalments	2020	scheme	opt-in
UK EEA Cross-border Fees	2021	scheme	mandatory
Europe Negative Response Fee Sunset / Debit MAR	2021	scheme	behavioural
New Secure Credential Framework Fee for UK Acquirers	2023	scheme	behavioural
Cardholder Verification Value (CVV2)	2023	scheme	opt-in

**Table 5: Visa fee changes whose rationales include 'value' or 'competition'**

[2]

**Table 6: Description of Visa fee changes and associated services**

Fee change	Description
<b>Alignment of International Acquiring Fees</b>	Increased acquiring fees on international transactions.
<b>Introducing flat acquiring scheme fees</b>	Change to acquiring scheme fees replacing a tiered structure with a flat fee.
<b>Alignment of Domestic and Intra CNP</b>	Increased the Acquirer CNP fee for domestic and intra-regional MOTO transactions.
<b>Alignment of International CNP</b>	Increased the Acquirer CNP fee for international MOTO transactions.
<b>Alignment of international CNP fees to global price structure</b>	Increased the acquiring fees on international transactions over three years.
<b>Core Processing Pricing</b>	Changes to core processing fees for acquirers, replacing a tiered fee on clearing and settlement with a flat fee and introducing an authorisation fee
<b>VbV/3DS Fees and 3D Secure Pricing (Issuer Attempts fee)</b>	Introduced an acquirer authentication request fee for using the Visa Directory Server in 3D Secure transactions. Introduced a fee to issuers where the issuer's access control server is not available.
<b>Acquirer Service Fee</b>	Increased the acquirer service fees on CP and CNP transactions.

150 While the acquirer-side VbV fee is opt-in, the issuer-side Issuer Attempts fee is behavioural.

Fee change	Description
<b>Everyday Spend</b>	Programme freezing the increase of the acquirer service fee [3], for transactions under merchant category codes associated with non-discretionary 'everyday' spend.
<b>Visa Analytics Platform</b>	Introduced a self-service, web-based analytics product, providing issuers, co-brand merchants and acquirers with payments data and insights on customers' behaviours and needs.
<b>System Integrity Fees</b>	Introduced fees for a suite of new behavioural rules designed to improve the security, performance and integrity of Visa's payment network.
<b>Visa Instalments</b>	Introduced a service enabling issuers and merchants to offer instalment plans to cardholders at checkout.
<b>UK EEA Cross-border Fees</b>	Introduced new fees for acquirers and issuers on transactions between the UK and the EEA.
<b>Europe Negative Response Fee Sunset/Debit MAR</b>	Replaced a behavioural fee on issuers with a different fee to incentivise increased issuer approval rates.
<b>New Secure Credential Framework Fee for UK Acquirers</b>	Introduced a fee for acquirers on CNP transactions that are not tokenised or authenticated using 3D Secure.
<b>Cardholder Verification Value (CVV2)</b>	Introduced a fee charged for acquirers on CNP transactions for which CVV2 is used (except when used with successfully passed 3D Secure or tokenisation).

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12 Endeavour Square

London E20 1JN

Telephone: 0300 456 3677

Website: [www.psr.org.uk](http://www.psr.org.uk)

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