

Market review of card scheme and processing fees

Stakeholder input to the
terms of reference

October 2022

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1 Introduction

1.1 We published our draft terms of reference (ToR) for our market review of card scheme and processing fees for consultation on 21 June 2022. We received 20 responses to our consultation from a variety of stakeholders. This document summarises their comments and explains how we are responding to these.

1.2 The document is structured as follows:

- In **Chapter 2** we summarise the comments received on the description of scheme and processing fees set out in the draft ToR (Q1 of the consultation). We then respond to these comments and confirm the description of scheme and processing fees we will use in the final ToR.
- In **Chapter 3** we summarise the comments received on the scope of the market review described in the draft ToR (Q2 of the consultation). We then respond to these comments and confirm the scope of the market review we will use in the final ToR.
- In **Chapter 4** we summarise the comments received on the approach to the market review described in the draft ToR (Q3 of the consultation). We then respond to these comments and confirm the approach to the market review we will use in the final ToR.
- In **Chapter 5** we summarise the other comments received on the draft ToR and respond to these comments.

Non-confidential versions of responses we received to our consultation [can be read here](#).

2 Description of scheme and processing fees

2.1 In our draft ToR we referred to the payments that acquirers and issuers make to card payment system operators as scheme and processing fees. We defined scheme fees as fees charged by a card scheme operator for participation in the card system, including any optional services provided by the scheme operator. We defined processing fees as fees charged by processing entities (which includes card payment system operators, such as Mastercard and Visa, but can also be provided by third-party processors) to their customers (issuers and acquirers). The fees are for services relating to technical processing for the authorisation, clearing and settlement of card payments. These include additional card payment functions, such as anti-fraud reporting.

Respondents' views

2.2 Of the 14 respondents that commented on our proposed description of scheme and processing fees, the majority broadly agreed with them.

2.3 We received very few concerns or suggested changes to our proposed definitions of scheme and processing fees. In response to this question, the majority of the comments related to the scope of the market review (Question 2). We therefore discuss these comments in the next section.

2.4 One respondent noted that it could be helpful to include more terminology that the card schemes use in the descriptions, such as 'service charges', 'assessment fees' and 'billable indicators'. In addition, one respondent suggested that 'processing fees' should be described as 'switching fees', as processing is a broader function than switching (with the latter undertaken by independent payment processors and including a broader range of issuing and acquiring processing services).

Our response

2.5 We note the comment about using more terminology used by card schemes in their fee schedules and invoices. We have decided not to change our definitions of scheme and processing fees, as these are high-level descriptions of fees that the market review will consider.

2.6 Our use of the term 'processing', rather than 'switching', reflects the language set out in UK legislation, such as the Interchange Fee Regulation (in particular, Article 7 on the separation of scheme and processor). We will, therefore, continue to use the term 'processing' fees going forward.

Our decision on the description of scheme and processing fees

- 2.7** In light of the broad support for our definitions of scheme and processing fees, we have not changed the definition of card scheme and processing fees (as per paragraph 1.6 of the final ToR) but we have given some examples of the fees that are included. We have clarified that the definition of scheme and processing fees includes, amongst other fees, mandatory and non-mandatory fees (of which behavioural fees are a sub-category of both mandatory and non-mandatory fees). We have set out in more detail what is included in the scope of the market review in Chapter 2 (*The scope of the market review*) of the final ToR.

3 The scope of the market review

- 3.1** In our draft ToR we proposed to focus on scheme and processing fees of Mastercard and Visa, as these two card schemes accounted for around 99% of the combined total of UK debit and credit card payments in 2021, by both volume and value. We also said that the concerns that stakeholders have raised with us about card scheme and processing fees increasing after 2018 largely relate to Mastercard and Visa.
- 3.2** We proposed that our market review would examine the levels, structures and types of scheme and processing fees of Mastercard and Visa. This would include any changes in the fee levels, as well as payments that Mastercard and Visa make to service users (for example, marketing assistance payments or rebates on scheme and processing fees). We said that we might also look at levels, structures and types of payments made.
- 3.3** In our draft ToR we proposed to focus on the period from 2014 to the present day, to allow us to build on the analysis and data collected in our card-acquiring market review.

Respondents' views

Suggestions for more detailed breakdowns of fees

- 3.4** Two respondents suggested that we distinguish between scheme and processing fees charged to acquirers and those charged to issuers.
- 3.5** One respondent thought that greater clarity was required around distinguishing between mandatory fees and non-mandatory fees, as in practice they thought that very few types of fees were non-mandatory. Another respondent noted that further sub-categorisation of fees may be needed, as not all fees relate directly to transactions and other fees are avoidable in certain situations.
- 3.6** Two respondents commented that they do not recognise the distinction between scheme and processing fees, and these are often not distinct in merchant invoices.
- 3.7** One respondent asked for confirmation that 'processing fees' are Mastercard and Visa processing fees and not those incurred directly by payment service providers independently of the card schemes. Examples include those fees paid to third parties for processing services.

Inclusion of other card fees

- 3.8** One respondent suggested that the scope of the review should be extended to include all fees levied by the card schemes or fees charged by Mastercard and Visa for card processing that are passed through an acquirer to the merchant. Similarly, another respondent noted that widening the scope of fees could provide a more accurate and comprehensive view of the overall costs. One respondent thought that some fees may not fall within the specific definition of 'scheme' and 'processing', as these services have changed over time as card schemes have evolved their operating models.
- 3.9** Two respondents suggested that we consider all fees in the market review, in order to prevent schemes from avoiding any remedies or interventions imposed on future fees. This could be achieved by 'renaming or branding them to ensure they fall outside of the scope of the PSR's review'.
- 3.10** One respondent suggested that our scope be expanded to include a review of a broader range of fees and rebates that issuers, merchants and acquirers can be exposed to, examples being 'Dynamic Currency Conversion (DCC) fees or Buy Now Pay Later fees'. Another respondent identified fees associated with buy now pay later services as a concern for merchants, as they felt it was not easy to opt out of these fees. It was further suggested by one respondent that value added services provided by certain issuers, acquirers or schemes (such as connecting merchants with potential customers, lower abandonment check out solutions, lower fraud or more frictionless Strong Customer Authentication (SCA) implementation) should be taken into account.
- 3.11** One respondent suggested that we broaden our scope to include payments made by Mastercard and Visa to service users (such as marketing assistance payments and rebates on scheme and processing fees) under our description of scheme and processing fees.
- 3.12** Two respondents commented that broadening the scope to incorporate other card fees could also counteract a lack of transparency with some of the fee breakdowns and ensure that such fees are considered within the scope of the market review. Several respondents also noted that some fees charged by Mastercard and Visa and their structures are often complex and opaque.
- 3.13** One respondent noted that the scope of the market review needs to include fees for optional services, including in circumstances where the schemes expect 'the merchants to adopt these changes even if they were optional to implement'.
- 3.14** One respondent recommended that interchange fees should be included within the scope of the market review. One respondent requested confirmation as to whether the market review would include interchange fees for commercial card transactions. Another respondent noted significant increases in non-regulated interchange fees (such as commercial cards) since the transposition of the European Commission's Interchange Fee Regulations in 2016 introduced a cap on domestic interchange fees for consumer card transactions. They did not suggest that we include this in the scope of our review.

Inclusion of fees for other payment methods

- 3.15** One respondent recommended that we should expand the scope of the market review to include fees charged by other forms of digital payment. In their view, where other forms of digital payments are operated by providers with high market penetration, there is a risk that individual issuers, acquirers or merchants may not have the ability to refuse participation in their 'schemes'. One respondent also highlighted a risk that any potential intervention we made on card scheme fees in isolation would be offset by other intermediaries increasing other fees.

Shortening the period we collect data about

- 3.16** Several respondents supported the proposed time period of 2014 onwards, noting its appropriateness following the card-acquiring market review's focus on the period 2014-2018.
- 3.17** However, the main parties' responses to our consultation on the draft ToR recommended that we reduce the time period under review. One noted the dynamic and evolving nature of the UK payments market and suggested that historic information has less relevance. The other noted that, due to the introduction of the separation article (Article 7) under the IFR in 2017, gathering information prior to 2017 may be more complicated and less relevant for this market review, compared to the card-acquiring market review.
- 3.18** One respondent, noting the rapidly changing dynamic of the UK payments market and that the review period in our card-acquiring market review was five years, suggested that the time period for this market review should accordingly be shortened to five historical calendar years (2017 to 2021).
- 3.19** Another respondent felt that the five-year review period covered by the card-acquiring market review was not well considered and led to data provided for this review quickly becoming obsolete. We have interpreted this statement as suggesting that the time period for this market review should be shorter than five years.

Our response

- 3.20** Following the comments received in response to the consultation, we have clarified the scope of the market review, including in some instances where aspects are already within the scope of the draft ToR, like fees for optional services. Our draft ToR intended to capture all those fees, but in our final ToR we have made it clearer that the market review will examine all fees and payments associated with Mastercard and Visa's scheme and processing activities, independent of the terminology that Mastercard and/or Visa use to describe such fees.

- 3.21** We have also clarified in our final ToR that the scope includes scheme and processing fees associated with both personal and commercial debit, credit, charge and pre-paid cards. Also, no charges (or payments) to specific scheme participants or service users are excluded from the scope of the market review.
- 3.22** We acknowledge that some merchants do not recognise the distinction between scheme and processing fees. However, we will continue to use this distinction because:
- scheme and processing services are different in nature
 - in the UK (and Europe), IFR separation requirements apply regarding payment card scheme and processing entities
 - this distinction corresponds to how Visa and Mastercard structure their fees
 - we understand that issuers and many acquirers do receive disaggregated information about scheme and processing fees.
- 3.23** We have considered whether the market review should be expanded to include domestic interchange fees. However, we will not be expanding the scope as the domestic interchange fees are subject to a cap.
- 3.24** We have also considered whether the scope of the market review should be expanded beyond fees for card transactions and include fees associated with non-card payment methods. Considering other payment methods within this market review would significantly widen the scope and length of the review. We believe it is better to have a focus which will allow us to complete the review within a reasonable timeframe. This does not stop us investigating issues in future if the evidence justifies it. Furthermore, we are already undertaking separate work in relation to interbank payments, as well as horizon scanning work to understand new developments and changes in the UK payments market. This means that these issues, whilst not covered by this market review, may be picked up by us through the course of other work we are undertaking, if appropriate.
- 3.25** We have considered feedback which highlighted the difficulties faced by schemes in uncovering historical data that goes back beyond five years. In response to this, we have decided to shorten the initial period of collecting data from eight years (that is, 2014 to 2022) to five years (2017 to 2022). However, we may seek data going back further if we consider this helpful to develop a fuller picture for the market review. Our analysis will take into account developments outside the time period of our initial data collection set out above, to the extent that evidence is available to inform our views. In addition, we will be able to draw on the information gathered and analysis undertaken on the card-acquiring market review, which covered the period from 2014 to 2018.¹

¹ MR18/1.8, [Market review into the supply of card-acquiring services: Final report](#) (November 2021), Annexes 4 and 5.

Our decision on the scope of the market review

- 3.26** Many elements of the feedback we have received are already part of the scope of the market review. In the final ToR, we have better articulated our description to clarify that they are in scope and avoid any potential misconceptions. In particular, the market review will consider all fees and payments relating to scheme and processing activities of Mastercard and Visa, irrespective of the terminology that Mastercard and/or Visa use to describe such fees.
- 3.27** We also confirm that the scope of the market review is card scheme and processing fees (of Mastercard and Visa), and the market review will not be focusing on fees of third-party processors or fees of other payment methods. Domestic interchange fees do not form part of this market review.
- 3.28** In light of the feedback received, we have decided to shorten the initial period of analysis for the market review from eight years (2014 to 2022) to five years (2017 to 2022).

4 Our approach to the market review

- 4.1** In our draft ToR we said that we wanted to understand whether the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives. We said that we were planning to consider the levels, trends and/or structure of scheme and processing fees levied on different participants (including issuers and acquirers), and their impact on competition, innovation and service-user interests.
- 4.2** In our draft ToR, we proposed to review whether there are factors that mean that Mastercard and Visa face weak competitive constraints in setting scheme and processing fees, and the impact of this. These factors may potentially include high barriers to entry, limited payment acceptance alternatives which might contribute to any market power of Mastercard and/or Visa, as well as to any potential lack of transparency in the pricing of scheme and processing fees.
- 4.3** In our draft ToR, we proposed to examine the process and factors that Mastercard and Visa consider when setting fee levels, alongside a variety of other factors. These include differences in the scheme and processing fees paid by different service users; changes over time in the types of scheme and processing fees; and how the competitive constraints faced by Mastercard and Visa differ for the services provided to issuers and acquirers.

Respondents' views

Considering all our objectives

- 4.4** Four respondents said that our proposed approach does not reflect all our statutory objectives. They asked for further detail on how we intend to measure and assess outcomes for our service-user and innovation statutory objectives, alongside our competition objective. One respondent highlighted the importance of avoiding potential negative impacts on innovation by being clear on the approach that will be taken in this market review.
- 4.5** Two respondents suggested that the market review should include steps to analyse outcomes for innovation and for service users. These respondents also suggested fusing merchant and consumer surveys to gather robust and illustrative data on their views on payments of all types and the outcomes they experience. Another respondent suggested that such evidence would allow us to understand the impact of competitive dynamics in the market.

Focus on aggregate fees

- 4.6** One respondent suggested that the market review should focus on the total amount of scheme and processing fees, broken up by different types of transaction and payment cards. They argued distinguishing between scheme and processing fees makes little difference to merchants, and we should avoid focusing on specific fees merely because they are individually large or have changed substantially.

Market power of the card schemes

- 4.7** One respondent said that the market review should focus on the market power of the card schemes, particularly the impact on barriers to entry. Another respondent identified the lack of customer data portability offered by card scheme services as an acute barrier to innovation and market entry by alternative suppliers.

Competitive constraints associated with non-card payment options

- 4.8** Two respondents recommended that the market review considers competitive constraints that non-card-based payment alternatives to Mastercard and Visa can exert on card schemes, in order to get a complete picture of the payments sector landscape. These respondents suggested that, in some sub-sectors, cards have a small market share compared with alternative end-to-end payment solutions, and recommended that the market review take a broader view on competition. One of these respondents, along with an additional respondent, suggested that the growing consumer choice in retail payments was benefitting users by giving merchants choices in acceptance and improving efficiencies in payments.
- 4.9** One respondent suggested that the global nature of payments offered a significant opportunity for international operators to enter or expand into the UK market, such as Alipay and WeChat Pay.
- 4.10** One respondent said that, given our stated expectation for competition between cards and the New Payments Architecture (NPA) in our five-year Strategy², the market review on scheme and processing fees needed to align well with work on the NPA to ensure customer protections, encourage competition and unlock account-to-account payments.
- 4.11** Another respondent said that the market review should consider why alternatives to the card schemes have not yet 'emerged at scale' and address regulatory measures that could encourage new schemes or payment methods to emerge. These could be options like account-to-account payments or other forms of digital payment.

2 The PSR Strategy: www.psr.org.uk/publications/general/the-psr-strategy/

- 4.12** One respondent said they would be interested in understanding how we planned to balance our market review with the implementation of remedies from the card-acquiring market review and the emergence of the NPA.

Implementation of interim measures

- 4.13** One respondent stressed the significance of increases to scheme fees since the transposition of the Interchange Fee Regulation in 2015, saying that fees were now four times their previous level, with no evidence of associated benefits. Alongside current cost-of-living challenges, they requested detail about timelines to complete this review, as well as consideration of interim measures to cap fees during our investigation.

Our response

- 4.14** We are mindful of the positive benefits card payments bring to customers and businesses as a means of payment, and will be taking this into account as part of our analysis. As stated in our draft ToR, we want to understand whether the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives. Our draft ToR already indicated that we will conduct our work in line with our competition, innovation and service-user objectives, and this approach hasn't changed. Having three objectives does not mean that we always need to pursue each of them, or each of them equally, in our considerations. Furthermore, we expect there to be a significant degree of overlap between the considerations under the three objectives. We also expect our thinking to develop over the course of the market review, including the possibility that further issues or areas of analysis are included (if they relate to potential harm to competition, innovation or service users) or some issues are dropped.
- 4.15** We have considered whether the market review should look at fees in aggregate or at a more disaggregated level. We plan to gather data on scheme and process fees paid to and from Mastercard and Visa at a disaggregated level (for example, for different fee types and across different categories of service users). Gathering disaggregated data will also enable us to carry out analysis at a aggregated level if appropriate. Both may be relevant to considering the core question of whether the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives.
- 4.16** We have considered whether we should commit to undertaking merchant surveys as part of the market review. Merchant surveys are one of the information-gathering tools available to us, along with others including roundtables, bilateral meetings and formal information requests to various parties. We will decide which tool is most appropriate for gathering the information we need, and will keep this suggestion in mind.

- 4.17** We have considered the suggestion that the market review should focus on the assessment of market power of the card schemes. Our current approach considers the factors that may influence and constrain how Mastercard and Visa set scheme and processing fees, and the impact of this. We have provided further clarity on this in the final ToR, including setting out that we propose to examine the competitive constraints Mastercard and Visa face when setting scheme and processing fees, the extent to which they have 'must take' status for merchants and the extent of any barriers to entry or network effects involved in setting up and running card payment systems. This addresses the above, so we only amend our ToR for clarity. Moreover, we are mindful of the links between this market review and our ongoing work on NPA and interbank payments.³ We will seek to ensure that our analysis for this market review draws upon this work where necessary.
- 4.18** The indicative timeline of this market review is set out in Annex 3 of the final ToR. With regards to the suggestion around imposing interim measures to cap fees during our investigation, we are still collecting evidence and therefore not in a position to take a decision. We will continue collecting evidence to inform our assessment, and we remain open to considering any possible outcome.

Our decision on our approach to the market review

- 4.19** We have considered the comments we received in relation to the approach taken in our review. We are already planning to consider a number of elements raised by the comments as part of our review. For example, the market review will have regard to our statutory competition, innovation and service-user objectives. We are mindful of the interaction between the market review and our other work (including on the NPA and account-to-account payments), and we will consider the use of market surveys as one analytical tools in our toolkit based on its merits. We, therefore, do not think they impact the approach as set out in the draft ToR, so have kept the envisaged programme of work in the final ToR largely unchanged, subject to the clarifications above.

³ We have an existing programme of work that looks at how to make direct account-to-account payments a realistic alternative to credit and debit cards in shops and for online purchases. This work, in addition to taking steps to address any barriers to the widespread take-up of account-to-account retail payments, considers whether the current commercial incentives for banks, intermediaries and merchants support greater use of these payments.

5 Other comments

Respondents' views

Comparison to other jurisdictions

- 5.1** Two respondents asked that we consider and compare the application of scheme and processing fees by Mastercard and Visa across domestic, intra-regional and inter-regional jurisdictions. One noted that this would be an opportunity to understand if there is uniformity across jurisdictions or, if there are inconsistencies, whether any of these are justified with a reasonable methodology that promotes competition. The other suggested that we examine jurisdictions where Mastercard and Visa's combined share of card transactions is not as significant (such as France, the Netherlands or Poland), or where processing takes place through national switches, to determine if trends in scheme and processing fees are aligned with those observed in the UK.

Efficiency and benefits of card schemes

- 5.2** One respondent suggested that the review consider how card schemes have utilised their clearing and processing systems to bring about cost efficiencies. These include potential economies of scale from a rise in contactless and/or card not present transactions brought on by the pandemic.
- 5.3** A few respondents recommended that we adopt a broader outcomes-focused view of Mastercard and Visa's roles in the retail payments sector. One of these respondents thought that our focus on scheme and processing fees could risk ignoring positive outcomes and user experiences. Another respondent noted that the schemes operated by Mastercard and Visa provided significant value by facilitating a secure and easy-to-use payment system with well-known customer protections, enabling significant investment in features to protect customers and merchants.

Differentiating impacts by size and type of merchant

- 5.4** One respondent suggested that we should differentiate impacts by size and type of service user. For example, those with high volumes and values but low fraud scores.
- 5.5** One respondent encouraged us to examine any differences in commercial fee structures that result from card schemes maintaining an issuing relationship with acquirers.

Our response

- 5.6** We have considered whether we should commit to international comparisons to examine card scheme and processing fees. This is one of the analytical tools available to us, and can be useful in understanding the level, structure and changes in scheme and processing fees in other jurisdictions. We will incorporate the use of this tool if it is appropriate and useful for our analysis.
- 5.7** In response to the comment regarding efficiency and benefits of card schemes, we will seek to understand the rationale for the levels of fees and any changes to them over time. The purpose of our review is not to make value judgements, but to ensure that the supply of scheme and processing services is working well having regard to our competition, innovation and protection of service-users objectives.
- 5.8** On differentiating impacts by size and type of service user, we will assess the services provided by Mastercard and Visa and the associated scheme and processing fees. This will include how these differ between relevant categories of service users, and the reasons for any differences. However, we do not at this stage commit to assessing the impact on different sub-categories within any of the service users.

PUB REF: MR22/1.3

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12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk

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