

Market review of card
scheme and processing fees

Stakeholder submissions
on draft terms of
reference (MR22/1.1)

October 2022

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Names of individuals and information that may indirectly identify individuals have been redacted.

American Express



**American Express: Response to PSR's market
review of scheme fees and processing fees – draft
terms of reference**

02 August 2022

[REDACTED]

A. Introduction

American Express welcomes the opportunity to provide feedback on the Payment Systems Regulator's (PSR) draft terms of reference for a review of Visa's and Mastercard's scheme and processing fees.

As the PSR is aware, unlike Visa and Mastercard, American Express operates a proprietary closed loop three party scheme in the UK, [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

American Express supports the fair, reasonable and proportionate approach taken by the PSR to tailoring regulatory intervention in its recent provisional decision on remedies in the card-acquiring market review. While the current consultation on terms of reference for the market review into scheme and processing fees is only in the early stages of the PSR's work in this area, as the PSR develops its findings and once it reaches the stage of considering remedies, we respectfully request the PSR to remain mindful of the potential risk that ambiguous or broad-brush regulatory intervention may give rise to unintended consequences for smaller three party schemes such as American Express and to continue to ensure a proportionate approach is taken. To avoid such outcomes, American Express would welcome the opportunity for ongoing dialogue with the PSR as an industry stakeholder throughout the course of the market review.

B. American Express response to the PSR's consultation questions

As a general comment, American Express notes that the concept of market definition has a specific meaning for the purposes of competition law. While we recognise that the PSR has specific powers to conduct market reviews and has not defined the relevant "market(s)" for the purpose of this review, it may be helpful to clarify that scheme and processing fees are not a "market" as such. Rather we consider the relevant market is at least all card payments in the UK. It is particularly important that the PSR is clear on what it considers the "market" to be given that the PSR proposes to examine factors such as barriers to entry, competitive constraints and the existence of market power.

Q1: Do you agree with our description of scheme and processing fees? If not, please explain:

- **how our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees**
- **why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional**

Please include any evidence you think is relevant to your response.

While American Express is not best placed to comment on the accuracy of PSR's description of scheme and processing fees in the UK we understand the descriptions to be broadly accurate in the context of four party schemes such as Visa and Mastercard.

As the PSR is aware, American Express does not operate an association based inter-bank card scheme like Visa or Mastercard. Instead, we operate a three party card scheme, [REDACTED]

[REDACTED]

[REDACTED]

Q2: Do you agree with the proposed scope of the market review? If not, please explain:

- how the proposed scope should be altered
- why you think the proposed scope should be altered in this way

Please include any evidence you think is relevant to your response.

American Express agrees that the focus of the market review should be on Visa and Mastercard for the reasons set out below.

- a) [REDACTED]
- b) Visa and Mastercard are the dominant duopoly in the UK: as the PSR notes in its draft terms of reference, Visa and Mastercard accounted for 99% of card transactions in the UK by value and volume in 2021.
- c) Amex is a small competitor [REDACTED] The PSR's data shows that American Express accounts for only a small share of card payments and as such is always a choice, not a 'must have', for consumers and merchants in the UK. It is self-evident that American Express faces strong competitive constraints from the dominant four party card schemes, [REDACTED] [REDACTED] Customers (cardholders and merchants) will only choose to use or accept a discretionary network like American Express if they see a benefit in doing so [REDACTED]

We also agree that 2014 to the present day is an appropriate period to examine given the work undertaken already by the PSR in the context of the card acquiring market review.

Q3: Do you agree with our proposed approach to the market review? If not, please explain:

- how the proposed approach should be altered
- why you think the proposed approach should be altered in this way

Please include any evidence you think is relevant to your response.

American Express agrees with the PSR's proposed approach and examination of the market power held by Visa and Mastercard in the UK. [REDACTED]

[REDACTED]

Q4: Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?

Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?

In your response, please explain:

- **which scheme and processing fees we should or should not focus on**
- **why you think we should focus on these scheme and processing fees**

Please include any evidence you think is relevant to your response.

[REDACTED]
[REDACTED] American Express also does not have visibility of the scheme and processing fees that are charged by Visa and Mastercard in the UK so cannot comment on whether the PSR should focus on certain types of fees.

Q5: Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?

Are there other factors in relation to scheme and processing fees that we should be considering?

Please include any evidence you think is relevant to your response

American Express broadly agrees with the potential factors that the PSR proposes to investigate with respect to Visa's and Mastercard's scheme and processing fees.

British Airways

PSR Market Review of Scheme and processing fees

British Airways Response

Consultation Questions

Question 1

- Do you agree with our description of scheme and processing fees?
 - A. We have no objections with your description

Question 2

- Do you agree with the proposed scope of the market review?
 - A. We have no objection with the proposed scope.

Question 3

- Do you agree with our proposed approach to the market review?
 - A. We have no objection to the proposed approach.

Question 4

- Are there specific types of scheme and processing fees we should focus our work on?

A. These should include but not be limited to:

Consumer credit & debit interchange fee increase

Consumer credit Interchange increase from [REDACTED] to [REDACTED] (VI/MC)

Consumer debit Interchange increase from [REDACTED] - [REDACTED] (VI/MC)

International acquiring fee in Europe/UK

Where merchant is in the UK and issuer is in the EEA and visa versa – [REDACTED] card present, [REDACTED] card not present.

- Are there specific types of scheme and processing fees we should not focus our work on?

A. This will vary by merchant and therefor we do not propose excluding specific types of scheme and processing fees.

Question 5

- Are there other factors in relation to scheme and processing fees that we should

be considering?

1. **It is not easily identifiable whether fees are from acquirer or scheme and whether these are processing or scheme fees;**

Example 1:

- Acquirer A: “passes through” chargeback fee in Europe “Chargebacks - Scheme Fees (Mastercard DAF)” Visa: [REDACTED] MC: [REDACTED]
- Acquirer B: contractual fee with UK acquirer of [REDACTED], no additional pass through fees
- Acquirer C: contractual fee with acquirer of [REDACTED] in USA, no additional pass through fees

Example 2:

Invoices contain categories such as “Activity based charges” and “Account fees” which contain both scheme pass through and acquirer based charges.

Example 3:

Scheme charges do not have clear descriptors e.g: VI BASE II CRVCHERFEE INTL D/P & MC NTWRK ACCESS SETTLEMENT FEE

2. **Complexity/lack of transparency in fee type**

- It is not always possible to tell what fees are incurred for. For example, Data Integrity Fees can be incurred for all following reasons:
 - No associated clearing message for an authorisation
 - Clearing message not received within 7 working days from the date of authorisation
 - Message elements between authorisation and clearing do not match
 - The authorisation and clearing amounts do not match
 - We have previously incurred “Data Integrity fees” and had no communication from the acquirer that there was an issue. It was only when we raised that we were not sure what the fee was for that this could be addressed.
3. British Airways has concerns around the scheme **differentiation of CNP and CP** and feel this should be addressed in detail in this investigation.

Example 1.

We are charged for providing mandatory 3DS services, despite the fact these are classified as CNP – which also attract higher fees.

Example 2.

Visa/Mastercard voluntary commitments only apply to card present and not card not present transactions and the application is asymmetrical to UK merchants disadvantage:

“The caps in the Commitments apply to transactions involving a UK-issued card to make a payment to a merchant located in the EEA (that is, inbound IFs), but do not apply to transactions using an EEA-issued card to make payments to a merchant located in the UK (that is, outbound IFs).” (para 1.12)

If our airline or agent sales in UK are treated as CP (and I'm not sure they are) then there is a disadvantage to us on those transactions.

More detail can be supplied to support this.

Many thanks



Senior Commercial Payments Manager

British Retail Consortium

BRC CONSULTATION RESPONSE – PSR MARKET REVIEW ON CARD FEES

ABOUT THE BRC

The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.

Overview

The BRC welcomes the PSR's consultations on the market reviews of scheme and interchange fees. The PSR's earlier Market Review on the supply of card acquiring services involved a thorough study that confirmed the BRC's own findings that the benefits of legislation to reduce card fees have not been passed on to most retailers, and that the fees levied by the card schemes have been increasing aggressively for several years. As the PSR stated in 2020, card scheme fees have "more than doubled over the period from 2014 to 2018, with most of this increase occurring between 2016 and 2018, after the IFR caps came into force" (PSR, 2020).

Our most recent data shows that cards account for 67% of retail transactions, and 80% of retailers' cost of collection, with the value of card payments in 2020 totalling £326.2bn (BRC Payments Survey). It is therefore crucial to the retail industry that card fees are fair and competitive, and the BRC is very encouraged to see the PSR acting on this finally.

Scheme fees

Since Interchange Fee Regulation was implemented in 2015, it is estimated that subsequent changes to scheme fees have increased UK merchants' annual costs by £519 million (as of the start of 2021), acting to erode materially the benefits of interchange regulation for merchants. Of the £519 million, £371 million is estimated to have been added since the European Commission's two-year review of the IFR. Further estimates suggest that the average Merchant Service Charge across IFR-regulated countries is now higher than it was prior to regulation (due to a combination of increases to both scheme fees and the acquirer margin component).¹

Following the Covid-19 pandemic, online expenditure has increased, and many retailers have expanded their online presence. The significant increase in card fees coincides with this and creates yet another hurdle for retailers navigating the post-pandemic world. Further, smaller retailers who may have only just survived the last two years are hit hard, and often have little to no bargaining power.

¹ Estimates provided by CMSPI and Zephyre Scheme Fee Study (2020)

The impact on UK merchants of the latest scheme fee and interchange fee increases announced since 1st January 2021 adds further costs which ultimately increase cost pressures on retailers, in turn leading to increased prices for goods and services paid by consumers.

As the PSR itself notes, “the costs of operating UK payments are ultimately paid for by consumers and businesses (even if they do not always face the direct cost at the time of making a payment). It is therefore important that payment systems are run efficiently so that they represent value for money.”

PSR’s proposed scope and approach- scheme and processing fees

The BRC agrees with the PSR’s description of scheme and processing fees.

We outline below some other considerations on the proposed scope and approach of the market reviews, for the PSR to reflect upon. The BRC is pleased to see the PSR’s proposed approach covers a variety of factors including the reasons and structure of the fees, the profitability, and whether the merchant preferences are considered.

We would encourage the PSR to look at other ways the card schemes may have found to recoup costs otherwise not picked up in standard scheme and processing fees. For example, some non-regulated interchange fees have increased dramatically since the cap alongside scheme and processing fees, such as business issued debit cards. One of our members cites seeing a 7-figure cost to the business on recent increases in these areas driving a material cost to their business. Merchants are unable to refuse these cards without refusing all forms of commercial cards, resulting in retailers having no choice but to absorb these additional costs. Acquirer card present service fees have also increased recently. Merchants should be able to make informed choices on all costs.

In addition to this, there appears to be a lack of transparency with some of the fee breakdowns. For example, market development funds, SCA fees, and PSR regulatory fees are often inconsistent or opaque. It would be useful for the PSR to ensure that these fees are considered in the scope of the market reviews to ensure that fees do not continue to be passed on in other places where they could be more easily hidden.

CMSPI estimates that the broader reclassification of the UK as an inter-regional market has so far resulted in £53.4 million in additional annual fees for UK merchants. This figure includes reclassification of consumer interchange fees, commercial interchange fees, scheme fees, and the removal of returned interchange on refunded consumer transactions. Only two of these fees are in scope of the PSR’s market reviews. We understand that the PSR’s intention at this time is to focus the market reviews to reduce the breadth of the subject matter, but it would not be sensible to fail to look at where card schemes could increase fees to counter any intervention the PSR may look to make.

Within the scope, the PSR asks whether merchant preferences are considered when the card schemes are setting their service offerings. The experience of BRC members is a collective view that they are not consulted when new fees or services are being decided. For example, SCA fees were originally just meant to impact issuers but over time they expanded to affect everyone. At no point were people consulted, services improved, or merchants given warning of these fees. BNPL fees are an upcoming concern with additional fees, no easy opt out, and the potential for discrepancy with brand values. For some retailers this is something they do not want, but will be forced to accept, along with a big jump in fees. Similarly, merchants gave other examples of the contactless limit

increase and AFD mandates whereby the schemes expected the merchants to adopt these changes even if they were optional to implement (ie. In the case of the contactless limit increase).

As above, we stress the importance of the PSR looking into the market power of the card schemes and competition issues that are arising. For example, what barriers to entry are new entrants to market on the fintech side facing, and how is this affecting the anti-competitive environment within which the card schemes appear to be abusing. It is also worth looking into consumer behaviour and ways to drive change in order to ensure a fairer and more effective competitive environment for all.

In summary, we strongly support the PSR's focus on card fees as something the BRC and its members have been advocating for years. We are extremely pleased to see that this is now going to receive appropriate attention. We would be pleased to work with the PSR as the market reviews progress and encourage the PSR to listen to the retailers and consider the data in recognising the anti-competitive environment that exists in the market, and the most effective interventions going forward. Our position remains consistent that we believe that interchange fees should be abolished altogether, and other fees should be regulated to ensure a fair and competitive environment for all.

Coadec



COADEC RESPONSE

MR22/1.1: Market review of card scheme and processing fees

About Coadec:

The Coalition for a Digital Economy (Coadec) is the policy voice of tech startups and scaleups in the UK. Since 2010, Coadec has worked to engage on behalf of tech startups in public policy debates in the UK across a range of priority issues for startups including access to finance, immigration and skills, and technology regulation.

Response Summary

Coadec greatly welcomes the PSR's market review of card scheme and processing fees.

In our view, recent increases in Mastercard and Visa card scheme and processing fees in the UK are directly contrary to the Government's express assurances that the Interchange Fee Regulation (IFR), as implemented in the UK, would prevent "*substitution*" of interchange fees with "*alternative fees*".¹

Indeed, EU policymakers promised that the IFR would be "*good for consumers [and] good for business*", by "*[cutting] the cost of payments substantially for merchants, especially SMEs*" – in particular, because the IFR "*reduces a 'tax' levied on business by banks in the form of interchange fees, and releases the brakes that have so far held back innovation*".²

It is evident though that the IFR has not reduced the "*tax*" levied on business by banks and payment card schemes, nor released the "*brakes*" that have continued to hold back innovation. On the contrary, as shown at Figure 1 below, the IFR only led to a brief temporary reduction in the cost of payments to merchants.

In particular, as Figure 1 shows, reductions in interchange fees have been offset by rapidly rising scheme and processing fees³, also shown in the changing composition of the total merchant service charge (**MSC**) in Figures 2 and 3 between 2014 and 2022.

Accordingly, in our view, recent increases in card scheme and processing fees are a breach of the IFR, a breach of previous commitments made by Mastercard and Visa, and likely breach of UK competition law and the PSR's regulatory objectives.

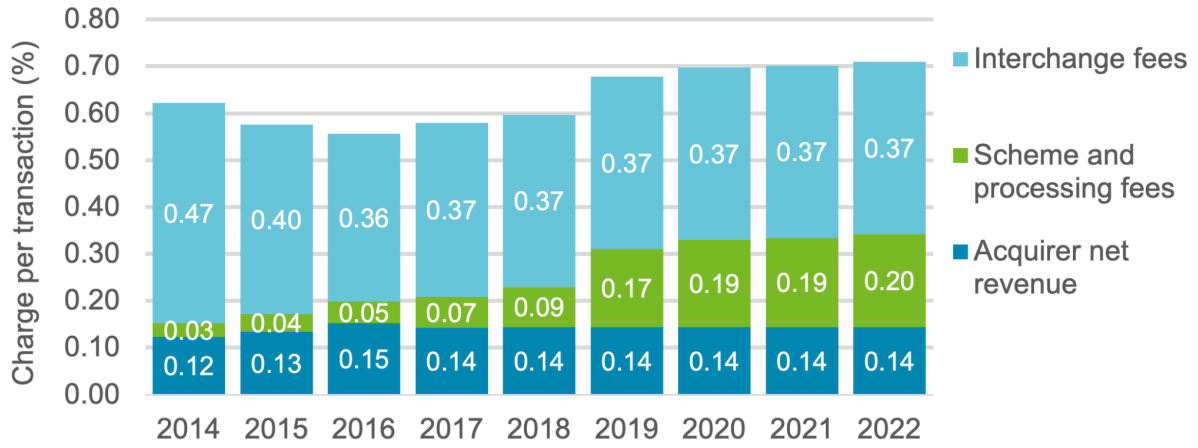
¹ HM Treasury Interchange fee regulation: consultation response, 2015, para. 2.10.

² European Commission – Statement (14/2767): Commission welcomes political agreement reached by European Parliament and Council on capping inter-bank fees for card-based payments, 2014.

³ What the PSR previously called just *scheme fees*.

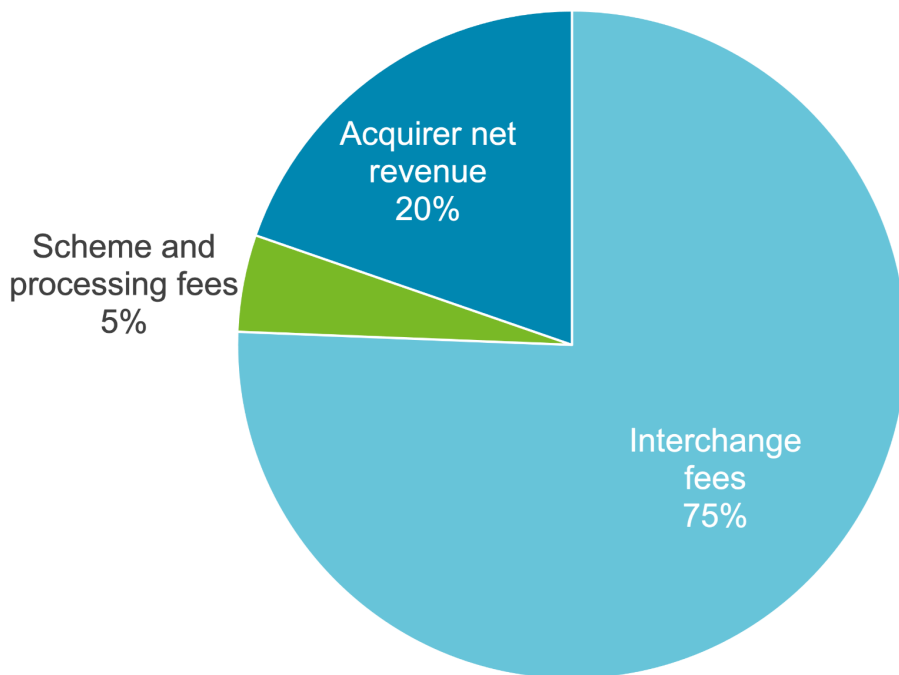


Figure 1: Average UK merchant services charges



Source: PSR Card-acquiring Markets Review (2014-18) & Coadec estimates (2019-22).

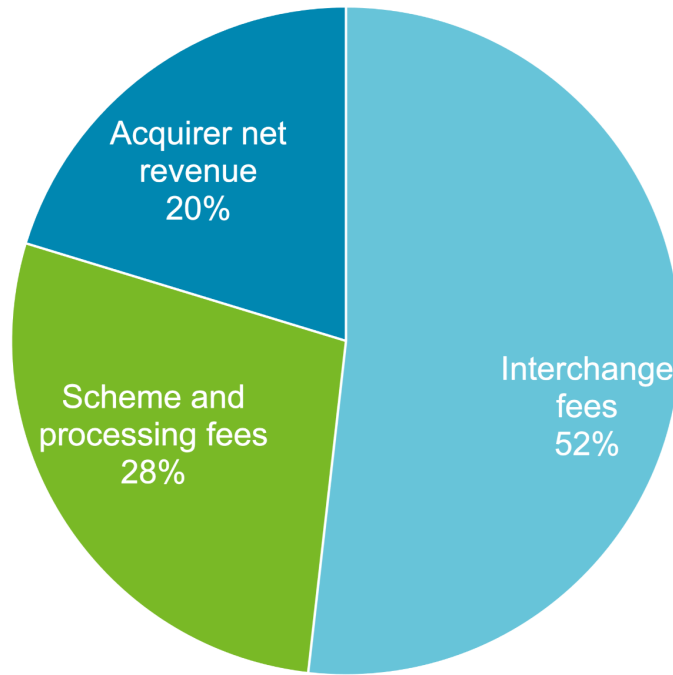
Figure 2: Components of merchant service charges (pre-IFR - 2014)



Source: PSR



Figure 3: Components of merchant service charges (post-IFR - 2022)



Source: Coadec estimates



Response to Consultation Questions

Scheme and processing fees

Question 1

- ***Do you agree with our description of scheme and processing fees? If not, please explain***
 - ***how our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees; and***
 - ***why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional***
- ***Please include any evidence you think is relevant to your response.***

We agree in principle with the PSR's proposed description of scheme and processing fees. We nevertheless request greater clarity.

First, we note that the PSR card-acquiring market review defined "scheme fees" as "all fees acquirers pay to operators of card payment systems, including fees for scheme services and fees for processing services".⁴

In contrast, the PSR's card scheme and processing fees consultation paper proposes to define "scheme and processing fees" as meaning "all fees acquirers and issuers pay to card payment systems operators" [1.4]. The consultation paper explains that this is a change from the PSR's previous terminology, so that it is "clearer that processing fees are also within the scope of our market review" [1.4].

We strongly agree that the PSR must be clear that card scheme processing fees are within the scope of the review.

This is critical because from the perspective of merchants processing fees charged by Mastercard and Visa to acquirers are an integral and indistinguishable part of the overall total fees charged by Mastercard and Visa to acquirers, in turn paid for by merchants.⁵

However, we seek confirmation that what the PSR means by such "*processing fees*" is Mastercard and Visa *scheme processing fees*, namely, the processing fees charged by

⁴ PSR Market review into card-acquiring services: Final report (MR18/1.8), 2021 [1.8].

⁵ Namely, while the IFR provides that acquirers shall "include in their agreements with [merchants] individually specified information on the amount of the merchant service charges, interchange fees and scheme fees [including processing fees]" [Article 9(2)], the IFR does not require acquirers to provide any separate disclosure to merchants of processing fees (as a distinct component of scheme fees).



Mastercard and Visa to acquirers (and/or issuers), but not other types of payment card processing fees.⁶

We note also that there are various alternative terms for scheme and processing fees used by Mastercard and Visa, and other parties, and used in different jurisdictions, including “*network fees*”, “*assessment fees*”, “*(scheme) membership fees*”, and “*(scheme) access fees*” It is important that the PSR is alive to these different terminologies, and does not treat these different terms as different fees.

Ultimately, scheme and processing fees are the fees that payment service providers (**PSPs**) (such as acquirers) and payment service users (**PSUs**) (such as merchants) must pay to access the Mastercard and Visa payment systems (i.e. they are access fees).

Second, following the PSR’s card-acquiring market review definition, any reference to “*scheme and processing fees*” must clearly distinguish between scheme and processing fees charged to acquirers by card payment system operators – and scheme and processing fees charged to issuers (or should only include scheme and processing fees charged to acquirers by card payment system operators).

This is because, scheme and processing fees charged to acquirers and corresponding fees charged to issuers are of course entirely separate fees, and must not be added together or conflated.⁷

Third, we agree that it would be useful to distinguish between scheme and processing fees which are mandatory and those which are optional. However, in practice, Coadec has reason to believe that very few types of scheme and processing fees are optional. In addition, fee structures are often complex and opaque, which disadvantages smaller businesses with less time, resources and expertise to devote to scrutinising terms.

⁶ Such as processing fees incurred by acquirers, issuers (or merchants) independently of the card schemes, i.e. incurred directly by acquirers, issuers, or merchants, and/or paid to third parties.

⁷ In our understanding, issuers do not pay scheme and processing fees to Mastercard or Visa in the UK, at least not after taking into account “*marketing assistance payments or rebates on scheme and processing fees*” (as the Consultation paper notes at [2.3]) and/or other “*incentives*” paid by Mastercard and Visa to issuers).



Scope

Question 2

- ***Do you agree with the proposed scope of the market review? If not, please explain:***
 - ***how the proposed scope should be altered; and***
 - ***why you think the proposed scope should be altered in this way.***
- ***Please include any evidence you think is relevant to your response.***

We agree with the PSR consultation paper that the scope of the review should focus on Mastercard and Visa scheme and processing fees, for the period from 2014 to the present day, and include all types of service-users.

For the avoidance of doubt, this must mean that the scope of the review will include scheme and processing fees for:

- UK domestic consumer debit and credit cards, i.e. scheme and processing fees payable by acquirers on UK-issued consumer debit and credit cards when used at UK merchants;
- UK-EEA consumer cross-border scheme and processing fees, i.e. scheme and processing fees on EEA-issued consumer debit and credit cards when used at UK merchants (and vice versa, i.e. UK-issued cards at EEA merchants);
- UK-rest of World (**RoW**) consumer cross-border scheme and processing fees, i.e. scheme and processing fees on RoW-issued consumer debit and credit cards when used at UK merchants (and vice versa, i.e. UK-issued cards at RoW merchants); and
- non-consumer cards (i.e. commercial cards) in all the above same scenarios, i.e. for UK domestic commercial cards, UK-EEA cross-border commercial cards, and UK-RoW cross-border commercial cards.

It is especially important that the review includes cross-border and commercial card scheme and processing fees, as such scheme and processing fees are generally substantially higher than the corresponding scheme and processing fees on UK domestic consumer cards.⁸ They also have a very substantial impact on certain merchant types.⁹

In addition, we do not agree that the PSR review should focus only on scheme and processing fees to the exclusion of consideration of the role and function of interchange fees. This is for a combination of reasons.

First, following repeated concerns from merchants that the introduction of the IFR in the UK might lead to rises in fees elsewhere “*in an attempt by banks to recoup costs lost from interchange fee caps*”, the Government gave assurances that the “*prohibition of*

⁸ Namely, an order of magnitude greater, as a percentage of transaction value.

⁹ Namely, travel sector and business-to-business (**B2B**) sector merchants.



circumvention” provision of the IFR (Article 5) would “prevent acquirers substituting interchange fees with an alternative fee [and that the PSR would subsequently] set out in a consultation how it intends to monitor compliance with the IFR, which also covers prohibiting circumvention”.¹⁰

In particular, Article 5 of the IFR defines interchange fees to be:

“any agreed remuneration, including net compensation, with an equivalent object or effect of the interchange fee, received by an issuer from the payment cards scheme, acquirer or any other intermediary in relation to payment transaction or related activities”.

Accordingly, in our view, scheme and processing fees represent such a form of “*agreed remuneration*” with an equivalent object or effect as interchange fees, especially in combination with other transfers from card schemes to issuers. Hence, scheme and processing fees are themselves a form of interchange fee, i.e. interchange fees in all but name (also called “*indirect interchange fees*”).

Second, the PSR of course is undertaking a separate review of UK-EEA consumer cross-border interchange fees.¹¹ But to review the role and function of such cross-border interchange fees will also require an analysis of the role and function of payment card interchange fees more generally.

We recognise that the Treasury itself has a role in reviewing the functioning of UK interchange fees, namely, of the functioning of the IFR in the UK.¹² The PSR will nevertheless have an essential role in advising the Treasury in its review.

Further, as indicated at Figure 1 above, despite rising scheme fees, interchange fees remain the largest part of the cost of card acceptance.

The PSR has repeatedly referred to “*its work on card fees*”¹³ – so such work must in due course include all categories of card fees.¹⁴

¹⁰ HM Treasury Interchange fee regulation: consultation response, 2015, para. 2.9-2.10.

¹¹

<https://www.psr.org.uk/media/0gfaxvbc/psr-mr22-2-1-cross-border-interchange-fees-draft-tors-jun-2022.pdf>

¹² We note also that such review is considerably overdue, as the Payment Card Interchange Fee Regulations 2015 (**PCIFR 2015**) calls for such a review within five years of the Regulations coming into force (see Part 7).

¹³ For example, PSR news: PSR sets out the details for its work on card fees, 21 June 2022; and various recent correspondence with the House of Commons Treasury Committee.

¹⁴ Including UK domestic consumer card interchange fees, UK-ROW cross-border consumer card interchange fees, plus UK domestic, UK-EEA, and UK-RoW commercial card interchange fees.



Accordingly, the role and function of interchange fees is the common theme across all these reviews and must therefore form an integral part of the PSR's reviews of card scheme and processing fees, and of UK-EEA consumer cross-border interchange fees.

Third, in considering the role, functioning (and lawfulness) of interchange fees (and any other combinations of fees that constitute interchange fees), we note in particular the findings of the UK Court of Appeal and Supreme Court in *Sainsburys v MasterCard*; *Asda, Argos, and Morrisons v MasterCard*; and *Sainsbury's v Visa* in 2018¹⁵ and 2020¹⁶ concerning interchange fees, themselves following the findings of the European Commission and the EU courts.

These judgments – by the UK's highest courts – were ultimately the culmination of complaints about the high cost of card payments first brought by UK retailers in 1992.¹⁷

The central question of these judgments was “*whether the setting of default multilateral interchange fees ('MIFs') within the MasterCard and Visa payment card systems contravenes article 101 of the Treaty on the Functioning of the European Union 2012/C326/01 (the 'TFEU') [...or equivalently] Section 2 of the Competition Act 1998*”.¹⁸ In other words: are Mastercard and Visa's interchange fees lawful?

More specifically, these judgments sought to answer:

- i) “*Do the schemes' rules setting default MIFs restrict competition under article 101(1) [TFEU] in the acquiring market, by comparison with a counterfactual without default MIFs [...]?*”
- ii) “*Should the schemes' argument that the setting of a default MIF is objectively necessary for their survival be evaluated on the basis of a counterfactual that assumes that the rival scheme would be able to continue to impose (unlawful) MIFs? [...and]*”
- iii) “*If the setting of default MIFs infringes [competition, under] article 101(1) [TFEU], should it have been held that the four conditions required for the application of the exemption [of the MIFs] in article 101(3) [TFEU] were applicable in these cases [...including that] consumers must receive a fair share of the resulting benefits [of the MIFs...], and if so at what level(s) were the MIFs exemptible?*”¹⁹

In the answer to these questions, the courts found:

- **Yes:** “*the rules of the MasterCard [and Visa] scheme[s] providing for a default MIF in the absence of bilateral interchange fees infringed article 101(1)*”²⁰;

¹⁵ Court of Appeal neutral citation number: [2018] EWCA 1536 (Civ).

¹⁶ Supreme Court neutral citation number: [2020] UKSC 24.

¹⁷ By the British Retail Consortium (**BRC**) to the European Commission and the then Office of Fair Trading (**OFT**).

¹⁸ Court of Appeal, para. 1.

¹⁹ Court of Appeal, para. 7(i)-(iii).

²⁰ Court of Appeal, para. 190.



- **No:** the schemes' argument that the setting of a default MIF is objectively necessary for their survival should not be evaluated on the basis of a counterfactual that assumes that the rival scheme would be able to continue to impose (unlawful) MIFs²¹; and
- **No:** *"Visa's case on article 101(3) [had] failed at the first hurdle, so that the MIFs would not have been exempt at any level"*²² and *"MasterCard had [also] failed to satisfy the first condition of article 101(3) so that its case for exemption failed"*²³, in particular, that *"There are not 'appreciable objective advantages' to the merchants in the acquiring market unless the advantages caused to them by the MIF outweigh the disadvantages. Only then can it be said that they have received a 'fair share' of the benefits."*²⁴

The Court of Appeal nevertheless found that the Article 101(3) exemption issue should be remitted to the Competition Appeal Tribunal (**CAT**) for reconsideration. The Supreme Court subsequently upheld the Court of Appeal's findings, excepting that the Court of Appeal should not have remitted the Article 101(3) issue to for reconsideration in the case of *Asda, Argos, and Morrisons v MasterCard*. The remaining cases of *Sainsburys v MasterCard* and *Sainsbury's v Visa* have now settled before trial. Hence, the question of article 101(3) exemption issue remains outstanding from those proceedings.

Accordingly, it will be difficult for the PSR to come to a view about the proper role and functioning of scheme and processing fees without also addressing the role and functioning of interchange fees (and wider operation of payment card systems).

In our view, it is extremely unlikely that Mastercard and Visa's interchange fees could ever meet the Article 101(3) exemption conditions (for which Mastercard and Visa have the burden of proving). Given the multiple findings that Mastercard and Visa's interchange fees infringe Article 101(1), the PSR should at minimum prohibit Mastercard and Visa's UK debit and credit card consumer interchange fees (allowing the possibility that this could change if Mastercard and Visa were to prove that the interchange fees met the exemption conditions to the requisite legal standard of proof).

²¹ See Court of Appeal, para. 346-348.

²² Court of Appeal, para. 57.

²³ Court of Appeal, para. 349.

²⁴ Court of Appeal, para. 102.



The PSR's proposed approach

Question 3

- ***Do you agree with our proposed approach to the market review? If not, please explain:***
 - ***how the proposed approach should be altered; and***
 - ***why you think the proposed approach should be altered in this way.***
- ***Please include any evidence you think is relevant to your response.***

The PSR says that it proposes to review whether Visa and Mastercard have market power in setting scheme and processing fees, owing to factors including:

- high barriers to entry and network effects;
- limited payment acceptance alternatives for merchants and the “must take” status of Mastercard and Visa; and
- lack of transparency of scheme and processing fees [2.7].

In addition, the PSR says that it proposes to analyse differences in the structure and/or levels of scheme and processing fees levied on different participants (such as issuers and acquirers) [2.8], as well as examining concerns including:

- the services provided by Mastercard and Visa in respect of scheme and processing fees;
- how Mastercard and Visa set their scheme and processing fees;
- changes in scheme and processing fees over time;
- corresponding incentive payments and/or other support that Mastercard and Visa offer to issuers and acquirers;
- the profitability of Mastercard's and Visa's UK card businesses of and how these have changed over time;
- any current and future competitive constraints that Mastercard and Visa face when setting scheme and processing fees, including differences between issuers and acquirers;
- the extent to which Mastercard and Visa are perceived as important or indispensable payment methods for merchants; and
- the extent to which the requirements and preferences of service-users, particularly merchants, are reflected in Mastercard and Visa's decision-making, and how relevant contractual terms related to scheme and processing fees are arrived at.

We strongly agree with the PSR's overall proposed approach to the review but would also encourage the PSR to examine any differences in commercial fee structures that result from card schemes maintaining an issuing relationship with acquirers.

We note though that many of the factors and concerns that the PSR seeks to review and examine have already been investigated and analysed extensively in previous Government



and regulator reviews, consultations, and decisions, and court judgments. The PSR's review should therefore build on, update, and develop those previous investigations (rather than creating new evidence and analysis from afresh).

Such previous investigations include the:

- Cruickshank Review of Competition in UK Banking (2000)²⁵;
- European Commission Visa Cross-Border Interchange Fee Decision (2002)²⁶;
- Office of Fair Trading (**OFT**) market study of clearing systems and review of plastic card networks (2003)²⁷;
- OFT Mastercard UK Interchange Fee Decision (2005)²⁸;
- European Commission Retail Banking Sector Inquiry (2007)²⁹;
- European Commission Mastercard Cross-border Interchange Fee Decision (2007) and subsequent appeals (2012, 2014)³⁰;
- European Commission Morgan Stanley/Visa Decision (2007)³¹;
- European Commission Mastercard Scheme Fees Antitrust Statement (2009)³²;
- European Commission Visa Debit Interchange Fee Commitments Decision (2010)³³;
- United States v American Express, Mastercard, and Visa antitrust action (2010)³⁴;
- European Commission Card Payments Market Green Paper (2012)³⁵;
- European Parliament Card Payments Market Green Paper Response and Resolution (2012)³⁶;
- European Commission EuroCommerce Complaint Decision (2012)³⁷;

²⁵ Competition in UK Banking: A Report to the Chancellor of the Exchequer, by Don Cruickshank, 2000.

²⁶ European Commission Decision COMP/29.373 – Visa International – Multilateral Interchange Fee, 2003.

²⁷ UK Payment Systems: An OFT market study of clearing systems and review of plastic card networks, (OFT658), OFT, 2003.

²⁸ Decision of the Office of Fair Trading, No. CA98/05/05: Investigation of the multilateral interchange fees provided for in the UK domestic rules of Mastercard UK Members Forum, 2005.

²⁹ European Commission 2007 Sector Inquiry under Article 17 of Regulation (EC) No 1/2003 on retail banking (Final Report), Commission Staff Working Document SEC (2007) 106 and Interim Report I: Payment cards (2006).

³⁰ European Commission Decision 2007 Case COMP/34.579, COMP/36.518 and COMP/38.510; MasterCard v European Commission, General Court of the European Union (**GCEU**), 2012; and MasterCard v European Commission, Court of Justice of the European Union (**CJEU**), 2014.

³¹ European Commission Decision 2007 Case COMP/D1/37860 Morgan Stanley/Visa, 2007.

³² European Commission Antitrust: Commissioner Kroes takes note of MasterCard's decision to cut cross-border multilateral Interchange Fees (MIFs) and to repeal recent scheme fee increases, 2009.

³³ European Commission Decision 2010 Case COMP/39.398.

³⁴ United States (Plaintiffs) v American Express, Mastercard, and Visa Defendants, Complaint for Equitable Relief for Violation of Section 1 of the Sherman Act, 2010.

³⁵ European Commission 2012 GREEN PAPER: Towards an integrated European market for card, internet and mobile payments, 2012.

³⁶ European Parliament resolution 2012 on Towards an integrated European market for card, internet and mobile payments (2012/2040(INI)).

³⁷ European Commission Decision partially rejecting EuroCommerce's complaint Case 39398 – VISA MIF C(2012) 4776 final.



- HM Treasury Setting the strategy for UK payments (2012)³⁸;
- HM Treasury Opening up UK payments (2013)³⁹;
- OFT UK Payment systems: How regulation of UK payment systems could enhance competition and innovation (2013)⁴⁰;
- HM Treasury Opening up UK payments: response to consultation (2013)⁴¹;
- European Commission Interchange Fee Regulation Proposal (2013)⁴²;
- European Commission Visa Credit Interchange Fee Commitments Decision (2014)⁴³;
- Sainsbury's v MasterCard (2016)⁴⁴; Asda, Argos, and Morrisons v MasterCard (2017)⁴⁵; and Sainsbury's v Visa (2017)⁴⁶ competition litigation and subsequent appeals (2018⁴⁷ and 2020⁴⁸);
- European Commission Mastercard Cross-Border Acquiring Decision (2019)⁴⁹;
- European Commission Mastercard and Visa Inter-Regional Interchange Fee Commitments Decisions (2019)⁵⁰;
- European Commission IFR Review (2020)⁵¹;
- United States v Visa and Plaid (2020) antitrust action⁵²; and
- European Commission Call for tenders for a Study on new developments in card-based payment markets (2022).⁵³

In combination, these previous (and ongoing) investigations and cases are highly relevant to the PSR's factors and concerns about scheme and processing fees in its current proposed review.

³⁸ HM Treasury, Setting the strategy for UK Payments, July 2012.

³⁹ HM Treasury, Opening up UK payments, March 2013.

⁴⁰ Office of Fair Trading, UK Payment systems: How regulation of UK payment systems could enhance competition and innovation, Part of the OFT's Programme of Work on Retail Banking, OFT1498, July 2013.

⁴¹ HM Treasury, Opening up UK payments: response to consultation, October 2013.

⁴² European Commission 2013 Proposal for a regulation interchange fees for card-based payment transactions, COM (2013) 550 final.

⁴³ European Commission Decision 2014 Case AT.39398.

⁴⁴ Competition Appeal Tribunal neutral citation number: [2016] CAT 11.

⁴⁵ High Court neutral citation number: [2017] EWHC 93 (Comm).

⁴⁶ High Court neutral citation number: [2017] EWHC 3047 (Comm).

⁴⁷ Court of Appeal neutral citation number: [2018] EWCA 1536 (Civ).

⁴⁸ Supreme Court neutral citation number: [2020] UKSC 24.

⁴⁹ European Commission Decisions of 29 April 2019 Case AT.39398 – Visa MIF and CASE AT.40049 – Mastercard II.

⁵⁰ European Commission Decision of 22 January 2019 Case AT.40049 – Mastercard II.

⁵¹ European Commission Report on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions SWD(2020) 118 final and accompanying European Commission Study on the application of the Interchange Fee Regulation.

⁵² US v Visa and Plaid complaint, 2020.

⁵³ European Commission Call for tenders COMP/2022/OP/0002: Study on new developments in card-based payment markets, including as regards relevant aspects of the application of the Interchange Fee Regulation, 2022.



First, these various investigations contain extensive discussion of how Visa and Mastercard's market power (and likely market dominance) is the result of network effects and other significant high barriers to entry.⁵⁴

Second, these investigations contain repeated reference to and evidence for Mastercard and Visa's "*must take*" status among merchants.⁵⁵ We note that the origin of the term "*must take payment cards*" was from academic research on payment card interchange fees.⁵⁶

Third, many of these investigations include extensive discussion of scheme fees.⁵⁷ In particular, the 2000 Cruickshank Review noted that there are two types of wholesale prices in payment schemes: interchange fees and scheme fees.⁵⁸ The European Commission's 2007 Mastercard Decision likewise noted that scheme fees have similar characteristics as interchange fees.⁵⁹

Following this, in 2009, the European Commission said that it considered scheme fee increases to be an infringement of the Commission's 2007 Mastercard Decision and/or an infringement of EU antitrust rules in their own right. Namely, following the Commission's 2007 Decision prohibiting Mastercard's cross-border interchange fees – and Mastercard subsequent repealing of those interchange fees – Mastercard decided to increase its scheme fees. It is evident that the Commission considered such scheme fee increases an infringement of the Commission's 2007 Decision and/or an infringement of EU antitrust rules in their own right.⁶⁰

⁵⁴ Especially, the Cruickshank Review (2000), para. 3.42-3.47, 3.99-3.101, 3.212-3.213, Annex D3; OFT Clearing Systems and Plastic Card Networks Market Study (2003); OFT Mastercard Decision (2005); European Commission Retail banking sector inquiry (2007); European Commission Mastercard Decision (2007); European Commission Morgan Stanley/Visa Decision (2007); HM Treasury Opening up UK payments (2013), para. 4.16; OFT UK Payment Systems (2013);

⁵⁵ Including European Commission Mastercard Decision (2007), para. 290, Annex 2, para. 23; European Commission Visa Commitments Decision (2010), para. 57; OFT UK Payment Systems (2013), para. 7.26; European Commission Visa Commitments Decision (2014), para. 104; European Mastercard Cross-Border Acquiring Decision (2019); European Commission Mastercard and Visa Inter-regional Interchange Fee decisions (2019).

⁵⁶ Jean-Charles Rochet and Jean Tirole, *Must Take Cards and the Tourist Test*, 2006.

⁵⁷ Namely, the Cruickshank Review (2000); European Commission Mastercard Decision (2007); European Commission Mastercard Scheme Fees Antitrust Press Release (2009); European Commission Visa Commitments Decision (2010), and accompanying Visa Commitments; European Commission EuroCommerce Complaint Decision (2012); HM Treasury Opening up UK payments (2013); OFT UK Payment Systems (2013), para. 1.21, 7.24-7.25, 7.30; European Commission Visa Commitments Decision (2014), and accompanying Visa Commitments; European Mastercard Cross-Border Acquiring Decision (2019); European Commission Mastercard and Visa Credit Inter-Regional Interchange Fee Decisions (2019); European Commission IFR Review (2020); United States v Visa and Plaid (2020); European Commission Call for tenders for a Study on new developments in card-based payment markets (2022).

⁵⁸ Para. 3.95-3.96.

⁵⁹ Para. 386-387, 551(iii).

⁶⁰ European Commission Mastercard Scheme Fees Antitrust Press Release (2009).



In 2012, the Commission explained that Visa had made express legal Commitments that it would refrain from increasing scheme fees – in response to merchants’ concerns – and such Commitments would be enforced by the EU Antitrust Regulation, namely:

“As regards EuroCommerce’s concern that Visa Europe could increase scheme fees or other charges which are outside the [Commission’s current] regulatory review [of interchange fees], the [proposed Visa interchange fee] Commitments [...] contains an anti-circumvention clause according to which Visa Europe shall refrain from setting and implementing other fees that are economically and/or legally equivalent to Intra-Regional Multilateral Interchange Fees applicable to Immediate Debit transactions, including but not limited to Visa Europe’s scheme fees charged to acquirers and / or issuers. The compliance of Visa Europe with this provision is verified by the Trustee. Non-compliance could lead to opening of proceedings or the imposition of penalty payments under [the EU Antitrust Regulation].”⁶¹ (our emphasis)

This anti-circumvention clause was contained in Visa’s 2010 and 2014 Interchange Fee Commitments.

In our view, Mastercard and Visa’s recent scheme fee increases (since 2015) are directly contrary to these previous Commitments made to the European Commission (which of course included UK) and should be subject to enforcement action accordingly - and by the UK where they impact UK merchants and consumers.

Most recently, in response to successive complaints from European merchants about rising scheme fees, the Commission has started a new study to “assess as a priority trends in relevant fees including notably scheme fees, [...including] their level of transparency and negotiability” (our emphasis).⁶²

Concerns about rising payment card scheme (and processing) fees are not limited to the UK and EU. In particular, in the United States Department of Justice (**DOJ**) antitrust lawsuit against Visa’s proposed acquisition of fintech payments firm, Plaid, the DOJ said:

“28. Merchants are charged two types of fees by Visa and its partner banks, both set by Visa: the ‘network’ fees Visa collects to process the transaction [i.e. scheme fees], and the ‘interchange’ fees that Visa compels merchants to pay the banks that issue Visa-branded debit cards. [...]

30. Recognizing the burden imposed by high debit fees and the barriers to competition in the market for debit transactions, [the United States] Congress sought to ‘correct the market defects that were contributing to high and escalating fees’ with

⁶¹ European Commission EuroCommerce Complaint Decision (2012), para. 101.

⁶² European Commission Call for tenders for a Study on new developments in card-based payment markets (2022), para. 1.4.



the Durbin Amendment of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act [...]

31. But the Durbin Amendment caps only interchange fees that accrue to Visa's large issuing banks, and does not regulate the network fees that accrue to Visa. As a result, Visa has responded by imposing new fees on merchants that undermine the effectiveness of the Durbin Amendment's fee caps. Even after enactment of the Durbin Amendment, Visa estimates that it earns an 88% operating margin from its network fees on debit payments, illustrating its durable monopoly power."⁶³

Visa has subsequently disclosed that, in 2021, the DOJ Antitrust Division “issued a *Civil Investigative Demand* (‘CID’) to Visa seeking documents and information regarding a potential violation of Section 1 or 2 of the Sherman [antitrust] Act [... focusing] on U.S. debit and competition with other payment methods and networks”.⁶⁴ We understand that this investigation reflects a continuation of the DOJ’s concerns about Visa’s scheme fees (and other business practices).

Last, on the PSR’s concerns about lack of transparency of scheme and processing fees, we note that such concerns are the same as historic concerns about lack of transparency of interchange fees, which only improved in response to regulatory action. Namely, the 2000 Cruickshank review complained about the lack of transparency – and moreover secrecy – of interchange fees (and Mastercard and Visa scheme rules generally).

Correspondingly, in response to the European Commission’s investigation of merchants complaints, Visa agreed, in 2002, to “change its EU Regional Operating Regulations so as to allow [for the first time, for] member banks to disclose to merchants [...] the level of the Visa EU intra-regional MIFs in force [...] and that] Merchants are to be made aware of the possibility to request this information from their banks”.⁶⁵ The Commission reported that “one other card payment system” had opposed such transparency provisions.⁶⁶

Subsequently, as part of Visa’s 2010 Interchange Fee Commitments, Visa committed to “continue to implement and to further improve the transparency measures that were introduced [by Visa previously, including...] to publish all cross-border and domestic MIFs on its website in a way that identifies an applicable interchange rate for all types of transactions and to require acquirers to inform merchants of the publication”.⁶⁷

Visa’s 2014 Interchange Fee Commitments required Visa to go further still, committing Visa, among other things, to “introduce a simplified MIF structure for MIFs set by Visa Europe to

⁶³ United States v Visa and Plaid (2020).

⁶⁴ Visa Inc Annual Report 2021, p. 110.

⁶⁵ European Commission Visa Cross-Border Interchange Fee Decision (2002), para. 25.

⁶⁶ Para. 36.

⁶⁷ European Commission Visa Commitments Decision (2010), para. 26.



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*provide for a reduction of at least 25% in the number of fee categories to aid transparency and comparison between rates”.*⁶⁸

In 2015, the IFR introduced further interchange fee transparency measures.

Merchants have nevertheless been calling for greater transparency of scheme (and processing) fees since at least 2009.⁶⁹ The Commission has itself now highlighted the lack of transparency of scheme and processing fees.⁷⁰ Hence, transparency of scheme and processing fees is a critical issue for the PSR review to address.

⁶⁸ European Commission Visa Commitments Decision (2014), para. 33.

⁶⁹ See in particular, European Commission EuroCommerce Complaint Decision (2012), para. 72.

⁷⁰ European Commission Call for tenders for a Study on new developments in card-based payment markets (2022), para. 1.2.



Question 4

- ***Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?***
- ***Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?***
- ***In your response, please explain:***
 - ***which scheme and processing fees we should or should not focus on;***
 - and***
 - ***why you think we should focus on these scheme and processing fees***
- ***Please include any evidence you think is relevant to your response.***

In our view, the proposed PSR review should focus on the total (mandatory) scheme and processing fees that acquirers (and thereby merchants) must pay to accept card payments. Accordingly, the individual breakdown of such fees – for example, as between “*scheme fees*” and “*processing fees*” – make little or no difference to merchants.

Correspondingly, the PSR study should not focus on specific scheme and processing fees merely because they are individually large or small, or have changed substantially or not changed substantially. On the contrary, the PSR review should focus on the total level of scheme and processing fees – distinguished by different types of transaction and payment card scheme – that merchants have no choice in paying if they wish to accept such transactions (and/or accept card payments at all).



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Question 5

- ***Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?***
- ***Are there other factors in relation to scheme and processing fees that we should be considering?***
- ***Please include any evidence you think is relevant to your response.***

The PSR should investigate all of the factors identified at paragraphs 2.7 and 2.8 (and concerns identified at para. 2.9) for the reasons as explained in answer to Question 3 above.

Electronic Money Association



Electronic Money Association

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Telephone: [REDACTED]

www.e-ma.org

Scheme and processing fees market review team
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

Sent by email to: cardfees@psr.org.uk

2 August 2022

Dear Sir/Madam

Re: PSR MR22/1.1 Market review of card scheme and processing fees; terms of reference

The EMA represents non-bank issuers and acquirers, and our members include leading payments and e-commerce businesses providing online payments, card-based products, electronic marketplaces, open banking payments and more. The EMA has been operating for over 20 years and has a wealth of experience regarding the regulatory framework for electronic money and payments. A list of current EMA members is provided at the end of this document at ANNEX II.

We would be grateful for your consideration of our comments to the Terms of Reference, which are set out below in ANNEX I.

Yours faithfully

[REDACTED]

Chief Executive Officer
Electronic Money Association

ANNEX I

Question 1:

- **Do you agree with our description of scheme and processing fees? If not, please explain:**
 - **how our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees**
 - **why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional**
- **Please include any evidence you think is relevant to your response.**

EMA Response: The EMA agrees with the PSR's proposed description of scheme fees and processing fees respectively. We consider the descriptions are sufficiently broad as to allow the PSR to comprehensively review all aspects of these fees.

Question 2:

- **Do you agree with the proposed scope of the market review? If not, please explain:**
 - **how the proposed scope should be altered**
 - **why you think the proposed scope should be altered in this way**
- **Please include any evidence you think is relevant to your response.**

EMA Response: The EMA, generally speaking, agrees with the PSR's proposed scope of the market review.

We agree that the market review should be limited to Visa and Mastercard due to their respective significant market shares and the nature of the four party card scheme model of which scheme and processing fees are a feature.

We agree the PSR should examine scheme and processing fees set by Mastercard and Visa (the levels, structures and types of scheme and processing fees), including any changes in the fee levels, as set out in paragraph 2.2 of the Terms of Reference.

Separately, paragraph 2.3 of the Terms of Reference provides: [The PSR will examine] payments that Mastercard and Visa make to service-users including, for example, marketing assistance payments or rebates on scheme and processing fees. PSR may look at levels, structures and types of payments made.

We agree that the PSR should include payments made to service users as part of the examination of scheme and processing fees (described in paragraph 2.2) as transparency is important for any competitive market.

Question 3:

- **Do you agree with our proposed approach to the market review? If not, please explain:**
 - **how the proposed approach should be altered**
 - **why you think the proposed approach should be altered in this way**
- **Please include any evidence you think is relevant to your response.**

EMA Response: The EMA, generally speaking, supports the PSR's proposed approach. Please see our comments to Question 4 below whereby we ask the PSR to ensure they consider increases in existing scheme and processing fees and additional processing fees that have arisen since Brexit.

Question 4:

- **Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?**
- **Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?**
- **In your response, please explain:**
 - **which scheme and processing fees we should or should not focus on**
 - **why you think we should focus on these scheme and processing fees**
- **Please include any evidence you think is relevant to your response.**

EMA Response: EMA members who are merchant acquirers have been subjected to both increases in existing Visa and Mastercard scheme and processing fees as well as additional Visa and Mastercard processing fees since Brexit, including when UK merchants accept one-off or sporadic cross-border payments in the EEA.

We therefore ask the PSR to specifically consider the broad range of mandatory and optional (depending on services used) Visa and Mastercard scheme and processing fees that can be incurred during the course of their review.

We also wish to urge the PSR, in the course of carrying out the market review, to examine Mastercard's and Visa's respective reasoning for the increases in fees and additional fees applied since Brexit.

Question 5:

- **Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?**
- **Are there other factors in relation to scheme and processing fees that we should be considering?**
- **Please include any evidence you think is relevant to your response.**

EMA Response: The EMA, generally speaking, agrees with the PSR's list of potential factors the PSR propose to investigate. As noted in our response to question 4, the PSR must additionally consider the Mastercard and Visa schemes' imposing of increases in existing fees as well as additional fees, particularly since Brexit.

ANNEX II: List of EMA members as of August 2022:

[AAVE LIMITED](#)
[Account Technologies](#)
[Airbnb Inc](#)
[Airwallex \(UK\) Limited](#)
[Allegro Group](#)
[Amazon Pay](#)
[American Express](#)
[ArcaPay Ltd](#)
[Azimo Limited](#)
[Banked](#)
[Bitpanda Payments GmbH](#)
[Bitstamp](#)
[BlaBla Connect UK Ltd](#)
[Blackhawk Network Ltd](#)
[Boku Inc](#)
[Booking Holdings Financial Services International Limited](#)
[CashFlows](#)
[Circle](#)
[Citadel Commerce UK Ltd](#)
[Contis](#)
[Corner Banca SA](#)
[Crypto.com](#)
[Curve](#)
[eBay Sarl](#)
[ECOMMPAY Limited](#)
[Em@ney Plc](#)
[emerchantpay Group Ltd](#)
[ePayments Systems Limited](#)
[Etsy Ireland UC](#)
[Euronet Worldwide Inc](#)
[Facebook Payments International Ltd](#)
[Financial House Limited](#)
[First Rate Exchange Services](#)
[FIS](#)
[Flex-e-card](#)
[Flywire](#)
[Gemini](#)
[Global Currency Exchange Network Limited](#)
[Globepay Limited](#)
[GoCardless Ltd](#)
[Google Payment Ltd](#)
[HUBUC](#)
[IDT Financial Services Limited](#)
[Imagor SA](#)
[Ixaris Systems Ltd](#)
[MANGOPAY](#)
[Modulr FS Europe Limited](#)
[MONAVATE](#)
[Moneyhub Financial Technology Ltd](#)
[Moorwand](#)
[MuchBetter](#)
[myPOS Europe Limited](#)
[NOELSE PAY](#)
[NoFriction Ltd](#)
[OFX](#)
[OKTO](#)
[One Money Mail Ltd](#)
[OpenPayd](#)
[Own.Solutions](#)
[Park Card Services Limited](#)
[Paymentsense Limited](#)
[Paynt](#)
[Payoneer Europe Limited](#)
[PayPal Europe Ltd](#)
[Paysafe Group](#)
[Plaid](#)
[PPRO Financial Ltd](#)
[PPS](#)
[Ramp Swaps Ltd](#)
[Remitly](#)
[Revolut](#)
[SafeCharge UK Limited](#)
[Securiclick Limited](#)
[Skrill Limited](#)
[Soldo Financial Services Ireland DAC](#)
[Square](#)
[Stripe](#)
[SumUp Limited](#)
[Syspay Ltd](#)
[Transact Payments Limited](#)
[TransferMate Global Payments](#)
[TrueLayer Limited](#)
[Trustly Group AB](#)
[Uber BV](#)
[Vitesse PSP Ltd](#)
[Viva Payments SA](#)
[Weavr Limited](#)
[WEX Europe UK Limited](#)
[Wirex Limited](#)
[Wise](#)
[WorldFirst](#)
[WorldRemit LTD](#)
[Yapily Ltd](#)

Global Pay

GPUK LLP RESPONSE TO THE PAYMENT SYSTEMS REGULATOR'S CONSULTATION PAPER ON DRAFT TERMS OF REFERENCE IN THE MARKET REVIEW OF CARD SCHEME AND PROCESSING FEES

1. Executive Summary

- 1.1 This response is prepared on behalf of GPUK LLP trading as Global Payments ("GPUK").
- 1.2 GPUK welcomes the opportunity to respond to the Payment Systems Regulator's ("PSR") consultation on the draft terms of reference in the PSR's market review of scheme and processing fees ("**Consultation**" and "**Review**").
- 1.3 GPUK is supportive in principle of the PSR carrying out the Review and the proposed scope and approach, and in particular that the PSR will examine the levels, structure and types of scheme and processing fees, considering how those fees are borne in respect of both issuing and acquiring activities. GPUK considers such a review is appropriate and necessary in the light of the increases seen in respect of scheme and processing fees charged as experienced by GPUK directly and as borne out by the PSR's analysis pursuant to its market review into card acquiring services¹.
- 1.4 GPUK would encourage the PSR to continue to review whether there are factors that mean that Visa and Mastercard have market power and face weak constraints in setting scheme and processing fees, and the impact of this. GPUK considers that acceptance by merchants in the UK of both card schemes continues to have "must have" status, which creates the possibility of either scheme having market power in setting acquirer scheme and processing fees. Acquirers such as GPUK have no choice but to pay the scheme and processing fees set.
- 1.5 GPUK would also encourage the PSR to consult with the full range of stakeholders within the payments ecosystem as it progresses with the Review.

2. Consultation Questions

Question 1: Do you agree with our description of scheme and processing fees? If not, please explain how our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees and why you think the description should be altered in this way.

- 2.1 GPUK agrees with the description of scheme and processing fees but would suggest that the scope of the Review is further extended to include all fees generated from the card schemes, not just scheme and processing. GPUK considers this would provide a more accurate and comprehensive view of the overall costs incurred by acquirers in relation to the card schemes.
- 2.2 Other fees that GPUK considers should be brought into scope include the following:
- 2.2.1 Integrity fees and non-compliance fees (for merchants) – while GPUK acknowledges that these do not represent direct costs in the same way as for scheme and processing fees, but instead are costs incurred by way of penalties, these fees are still relevant as they are costs borne by acquirers directly related to use of the services provided by the card schemes and which the acquirer is often unable to directly address. GPUK considers this additionally, raises broader, relevant ecosystem issues;
- 2.2.2 Product and service fees – while some of these types of fees are advertised as optional, in reality they are not optional and therefore represent additional

¹ See *Market Review into card-acquiring services: Final Report (November 2021) paragraph 5.13*

costs to acquirers. For example, where GPUK is charged a fee to process a 3DS² transaction, it is also charged a fee to process a non 3DS transaction.

- 2.3 GPUK would therefore invite the PSR to widen the scope of its Review to encompass all other fees incurred in addition to “scheme and processing fees” that make up the full set of fees charged to acquirers by the card schemes.

Question 2: Do you agree with the proposed scope of the market review? If not, please explain how the proposed scope should be altered and why you think the proposed scope should be altered in this way.

- 2.4 See response to question 1 which applies equally to this question.

- 2.5 GPUK considers there is a real risk that if the PSR does not extend the scope of the Review as suggested above, this could lead to the card schemes trying to circumvent any rules or remedies imposed in respect of future fees, for example by renaming or branding them to ensure they fall outside of the scope of the PSR’s review.

Question 3: Do you agree with our proposed approach to the market review? If not, please explain how the proposed approach should be altered and why you think the proposed approach should be altered in this way.

- 2.6 Yes, GPUK is supportive of, and agrees with, the PSR’s approach to the Review.

- 2.7 GPUK would request however that in its information gathering process, the PSR focusses its requests on the card schemes themselves as the stakeholders who most obviously hold the data the PSR requires and that the burden imposed on acquirers to produce data is kept to the minimum necessary given the onerous information requests and responses acquirers have recently been subjected to under the PSR’s market review into the supply of card acquiring services. GPUK stands ready to assist the PSR in its work but would ask that this is taken into consideration and consequently GPUK would appreciate the PSR keeping the additional burden on a firm such as GPUK to respond to further data request notices to a minimum.

Question 4: Are there specific types of scheme and processing fees we should focus our work on? Are there specific types of scheme and processing fees we should not focus our work on? In your response, please explain which scheme and processing fees we should or should not focus on and why you think we should focus on these scheme and processing fees.

- 2.8 For Mastercard, GPUK proposes that the PSR should focus on the domestic Standalone, Switching and Scheme price guides for the UK, and the European Standalone, Switching and Scheme Price guides.

- 2.9 For Visa, GPUK proposes that the PSR should consider the European General Fee Schedule and Processing Fee Schedule, and the Inter client Fees for the UK, as well as intra & inter regional fee guides.

- 2.10 As above, we would encourage the PSR to review all fees imposed by the Schemes and the trend over the period of the review.

Question 5: Do you have views on the potential factors that we propose to investigate? Are there other factors in relation to scheme and processing fees that we should be considering?

² The 3D security protocol adds an additional level of payment protection to an online transaction. In order to complete an online purchase, the cardholder is asked to provide a form of two factor authentication to validate authenticity.

- 2.11 GPUK is of the view that the PSR should ensure that, alongside the potential factors proposed, it should consider the introduction of new or increased scheme and process fees to determine if they are driven by changes in the market dynamics and volumes, changes to merchant acceptance requirements, or if they are driven by increased costs.
- 2.12 Consideration should also be given to determine if different acceptance channels generate additional costs of processing, or if all types of acceptance bear the same underlying cost.

HMRC

Market review of card scheme and processing fees - HMRC Comments 29.07.2022

Scheme and processing fees

Question 1

- Do you agree with our description of scheme and processing fees? If not, please explain:

o how our description should be altered and whether there are alternative

approaches to categorising Mastercard and Visa scheme and processing fees

o why you think the description should be altered in this way. For example,

you may think it is important to distinguish between fees which are mandatory

and those which are optional

I think this is a case of naming/terminology. When you refer to 'Acquiring fees' at HMRC we class these as MA processing fees. You have now separated 'scheme' and 'processing' fees, at HMRC we still refer to both these fees as 'scheme fees'. It would be helpful to get more detail on what elements you class as 'scheme' and what elements you class as 'processing' and what makes them different?

- Please include any evidence you think is relevant to your response.

Scope

Question 2

- Do you agree with the proposed scope of the market review? If not, please explain:

o how the proposed scope should be altered

o why you think the proposed scope should be altered in this way

- Please include any evidence you think is relevant to your response.

Yes, HMRC only accept payments from Mastercard and Visa

Our proposed approach

Question 3

- Do you agree with our proposed approach to the market review? If not, please explain:

o how the proposed approach should be altered

o why you think the proposed approach should be altered in this way

- Please include any evidence you think is relevant to your response.

Yes, HMRC would welcome a review on scheme & processing fees. Over that last 2 years HMRC have noticed an increase in these fees, but also a greater complexity, particularly with Mastercard, making it more difficult to understand and impact.

Your approach seems sound,

Question 4

- Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?
- Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?
- In your response, please explain:
 - o which scheme and processing fees we should or should not focus on
 - o why you think we should focus on these scheme and processing fees
- Please include any evidence you think is relevant to your response.

Yes, as per question 3. I'd be particularly interested in Mastercard's auth fees and SCA fee structure. You have also included cross border fees and again HMRC would be interested to know more about the need for these fees and what we get in return? The complexity of the fees is also something we would appreciate your review looking into as this can make it challenging for merchants to keep track and impact if necessary.

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Question 5

- Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?
- Are there other factors in relation to scheme and processing fees that we should be considering?
- Please include any evidence you think is relevant to your response

It would be good to include the type and level of merchant in your review. HMRC is a level 1 Merchant with high volumes and values but we also have an extremely low fraud score, probably due to the unique position and being part of Government, but should other Government departments similar to us be looking for scheme fees to better reflect our unique/low risk position?

HSBC

HSBC UK Bank plc

PAYMENT SYSTEMS REGULATOR

Market Review of Card Scheme and Processing Fees

RESPONSE TO CONSULTATION

1AUG2022

COVER SUBMISSION

HSBC UK Bank plc (**HSBC UK**) welcomes the opportunity to respond to the Payment Systems Regulator's consultation on the draft Terms of Reference for the market review of card scheme and processing fees.

As a major card issuer in the UK that uses both Visa and Mastercard payment systems across our debit and credit card portfolios, we have a clear interest in ensuring this market is functioning in line with the PSR's statutory competition, innovation and service-user objectives and in the interests of the different parties in the cards ecosystem and welcome the PSR's focus on this topic.

As previously communicated to the PSR, HSBC UK has not been directly involved in card-acquiring in the UK for the last decade. As a result, our comments below primarily relate to our Debit and Credit card issuing business using Mastercard and Visa.

Scheme and Processing Fees

1. **Do you agree with our description of scheme and processing fees? If not, please explain:**
 - **How our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees?**
 - **Why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional?**

Please include any evidence you think is relevant to your response.

- 1.1 In broad terms, HSBC UK agrees with the PSR description of the scheme and processing fees and believes they are well defined in the draft terms of reference. We agree it is important for the review to cover the levels, structures and types of scheme and processing fees and that as part of this assessment the PSR should also consider the types of additional payments that Mastercard and Visa may make to service-users including, for example, marketing assistance payments or rebates on scheme and processing fees in order to have full understanding of the fee structure.
- 1.2 Our experience is that the fees for both card schemes are complex and both schemes have different fee structures for issuing and acquiring. While it is important to recognise that the two models may not be fully comparable, that should not prevent the PSR from assessing whether the card schemes have market power and face weak constraints in setting scheme and processing fees.
- 1.3 We also note that both schemes have core fees for processing transactions (e.g. authorisation, clearing and settlement fees) as well as fees for optional services. The PSR will need to consider the full range of fees, and their applicability across the market, in order to have a comprehensive understanding.

Scope

2. Do you agree with the proposed scope of the market review? If not, please explain:

- How the proposed scope should be altered?
- Why you think the proposed scope should be altered in this way?

Please include any evidence you think is relevant to your response.

- 2.1 HSBC UK broadly agrees with the scope of the proposed review overall. Whilst we note the role that other card schemes play within the market, we recognise and accept the PSR's rationale to focus only on Mastercard and Visa scheme and processing fees given their high share of the market, their 'must take' status and the concerns raised by stakeholders.
- 2.2 Whilst we understand the focused period is from 2014 to date, in assessing trends over time it should be noted that Covid-19 lockdowns in 2020/2021 will have had an impact on processing fees for both issuer and acquirers given the reduced payment volumes during this time.

Our Proposed Approach

3. Do you agree with our proposed approach to the market review? If not, please explain:

- How the proposed approach should be altered?
- Why you think the proposed approach should be altered in this way?

Please include any evidence you think is relevant to your response.

- 3.1 We are generally supportive of the approach of the market review. We have no additional comments.

4. **Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?**

Are there any specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?

In your response, please explain:

- **Which scheme and processing fees we should or should not focus on?**
- **Why you think we should focus on these scheme and processing fees?**

Please include any evidence you think is relevant to your response.

- 4.1 As noted above, both schemes have core fees for processing transactions (e.g. authorisation, clearing and settlement fees) as well as fees for optional services. It is our view that the PSR will need to consider the full range of fees, and their applicability across the market, to have a comprehensive understanding.

5. **Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?**

Are there other factors in relation to scheme and processing fees that we should be considering?

Please include any evidence you think is relevant to your response.

- 5.1 We are generally supportive of the potential factors the PSR proposes to investigate. We have no additional comments.

Innovate Finance

MR 22/1.1 Market review of card scheme and processing fees

MR 22/2.1 Market review of UK-EEA consumer cross-border interchange fees

Innovate Finance response to the PSR consultations and terms of reference

About Innovate Finance

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Innovate Finance's mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators.

The UK FinTech sector encompasses businesses from seed-stage start-ups to global financial institutions, illustrating the change that is occurring across the financial services industry. Since its inception in the era following the Global Financial Crisis of 2008, FinTech has been synonymous with delivering transparency, innovation and inclusivity to financial services. As well as creating new businesses and new jobs, it has fundamentally changed the way in which consumers and businesses access finance.

Introduction and key points

Innovate Finance welcomes the opportunity to respond to the PSR's consultations on the draft terms of reference in relation to the proposed market reviews into scheme and processing fees and cross-border interchange fees.

In preparing this response, we have consulted with our FinTech start-up and scale-up members that span the issuer and acquirer sides of the discussion. Based on engagement with our members, it is clear that there is currently not a consensus on the best approaches to be taken by the PSR. However, all members are in agreement that these issues are of critical importance to industry, and there is a need to avoid unintended consequences for innovators in the market.

In light of the above, Innovate Finance would urge the PSR to engage further with the FinTech community. We would be happy to facilitate member roundtable discussions and / or wider engagement with the FinTech community.

[ENDS]

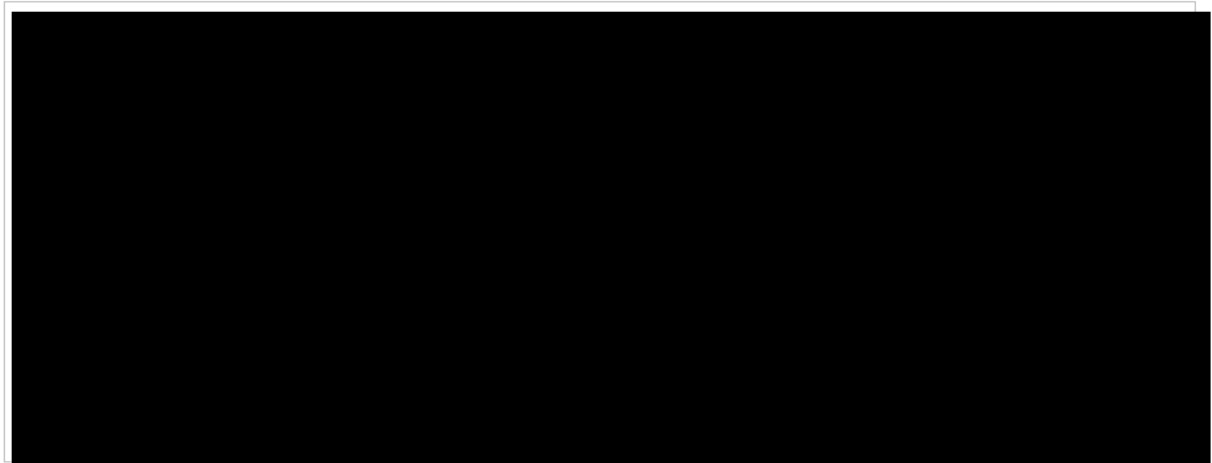
Kingfisher

From: [REDACTED]
To: [cardfees](#)
Subject: PSR Card fees review
Date: 20 July 2022 11:23:29
Attachments: [image001.png](#)
[image002.jpg](#)
[image003.jpg](#)
[image006.jpg](#)

****This email has come from an external source. BE CAREFUL of links and attachments and report suspicious emails****

Hi, in response to your announcement of the card fees review and request for feedback, I have some comments to provide which I would like to firstly better understand if these are in scope for the review, in addition to the review of scheme fees and processing costs will you also be reviewing the Interchange fees for the unregulated commercial cards?

Our biggest impact on pricing in the last few years has been a [REDACTED] hit on interchange costs for acceptance of business / corporate credit cards where both Visa and Mastercard have since Brexit introduced large hikes in the % rates applicable to accept these cards, example noted below for Visa.



Additionally we have seen large hikes in 3ds fees and thr regular introduction of new scheme fees.

Best regards

[REDACTED]

[REDACTED]
Group Procurement Manager – Financial & Professional Services
Group Procurement | London

[REDACTED]



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Lloyds Banking Group

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LLOYDS BANKING GROUP PLC

Market review of card scheme and processing fees

Market review of UK-EEA consumer cross-border interchange fees

Response to PSR's Consultation on its Draft Terms of Reference

2nd August 2022

[REDACTED]

Lloyds Banking Group Response

Lloyds Banking Group (LBG) welcomes the opportunity to respond to the Payment Systems Regulator's (PSR) consultation paper on the draft Terms of Reference for the Market Review of card scheme and processing fees and the Market Review of UK-EEA consumer cross-border interchange fees. The reviews as outlined in the consultation papers touch on critical issues, including cross-border card payment interchange, scheme fees and retail payments. These are areas that have been the subject of regulatory and legal scrutiny for many years, and in which there remains considerable uncertainty for stakeholders. These studies are therefore an opportunity for the PSR to resolve some of these issues and to provide the clarity and certainty required to support competition, innovation, and investment.

We would welcome working collaboratively with the PSR through these reviews to help with its understanding of how the markets operate in practice, and to provide constructive views as the analysis progresses.

Our position as one of the largest banks in the UK brings insight into the perspectives of a number of different groups who may be affected by the outcome of these reviews, including consumers and merchants. Previous market reviews have successfully involved stakeholders such as ourselves through roundtables, bi-lateral meetings and working and discussion papers, and we encourage the PSR to make the most of such tools again for these reviews.

We would like to note a few points that we hope the PSR will consider.

In terms of scheme & processing fees:

- The card schemes operated by Visa and Mastercard provide significant value to both our retail and merchant customer groups by facilitating a robust and easy to use payment network with well-known consumer protections. They have also enabled significant investment in features to protect customers and merchants such as Strong Customer Authentication, contactless payments, tokenisation, and other initiatives which are continuing to improve the payment experience of all participants. We hope the PSR will take this value into account as part of its assessment.
- We continue to work closely with Pay.UK and the PSR on the development of the New Payments Architecture (NPA), including on the key issue of promoting account-to-account payments through Open Banking. Given the PSR's stated expectation for competition between cards and the NPA, reviews of the two should not be approached in isolation. We believe the scheme and processing fees review needs to go hand-in-hand with this work on the NPA; to ensure consumer protections, encourage competition, and unlock account-to-account payments. We would welcome involvement in discussions regarding the use of further investment in Open Banking and the NPA. We would also highlight the letter we sent to Pay.UK in June, regarding its commitments to industry for the NPA, in which we reiterated our firm belief that a viable commercial fee arrangement is needed to enable a commercial and sustainable model which is competitive and supports future innovation.
- Our previous responses to both the card-acquiring market review and the proposed remedies noted that it is the complexity of scheme fees which we believe impacts the ability of acquirers to provide meaningful price comparisons for merchants. This review is an opportunity to address this issue, which is at the root of the PSR's concerns in the merchant card-acquiring review. The PSR should be clear that such complexity is within the scope of what it will explore.
- To gain a complete picture, we would suggest that the PSR may also want to include in the scope of its review so-called "non-compliance assessments" by the Schemes and the financial consequences associated with these. These can result in participants (such as acquirers) having to make significant additional payments to the schemes based on conduct of merchants and/or customers who may be impacted by rule changes imposed by the schemes.

And in terms of cross-border interchange:

- Continuing legal uncertainty created by unprecedented levels of litigation in the UK courts about the level of interchange (even when set within a regulated cap as is the case for domestic interchange) may deter investment and entry into the retail payments and banking markets and may result in erosion of customer or merchant benefits. It would be a missed opportunity if this review were not also used by the PSR to provide legal certainty over the level of interchange in the future (particularly for domestic transactions), ensuring card schemes remain on a commercial and sustainable footing and providing clarity for emerging alternatives such as NPA.

We welcome further discussion with the PSR on the terms of reference for these market reviews and the substance of the issues that these will address.

Mastercard

Mastercard response to PSR *‘Market review of card scheme and processing fees’* and *‘Market review of UK-EEA consumer cross-border interchange fees’* draft terms of reference

2 AUGUST 2022

Introduction

Mastercard is providing a joint response to the PSR's separate consultations on its draft terms of reference for its 'market review of card scheme and processing fees' (MR22/1.1) and its 'market review of UK-EEA consumer cross-border interchange fees' (MR22/2.1). Noting that the market reviews have a different focus, several of the issues which Mastercard wishes to highlight overlap both and so it makes sense to respond in this way.

Mastercard is pleased that the PSR recognises the importance and value of card payments in the UK. Card payments are highly valued as a means of payment by both consumers/businesses as payers and merchants as payees. They operate in an increasingly competitive retail payments market where users have many other choices of how to pay and be paid. They succeed because they combine speed and convenience, with very high levels of operational resilience, dispute resolution and consumer protection tools and an increasingly wide array of value-added services which enhance the overall payment experience.

But card payments are not ubiquitous. They are not always accepted and where they are accepted they are not always the preferred payment option, as merchants may steer customers to alternatives. In a diverse and dynamic payments market, different payment options may be more or less suited to different payment needs. For example, cards play a relatively small role in both person to person and business to business transactions. They are more suited to person to business transactions, but even for that purpose they may not be favoured by smaller merchants or those operating in sectors such as financial services or utilities or subscriptions where direct debit may be the merchant's preferred (or sometimes only) method of receiving payment. Card payments may play a greater role for deferred delivery payments, where consumer protection is of greatest value.

In undertaking these market reviews, the PSR will need to consider card payments within the wider payments market. As we outline in the remainder of this response, the PSR's proposed narrow focus on fees will not enable it to develop a full understanding of how well competition is functioning more broadly. Mastercard recognises the importance of fees in an overall assessment of a market and understands why the PSR may want to examine them. But an investigation of fees in isolation is likely to limit the PSR's ability to assess how well the market is delivering in the interests of its participants.

Overall Approach

As the PSR highlights, these market reviews (particularly the scheme and processing fees review) follow on from its card-acquiring market review, but it is notable that the PSR is taking a very different approach. That previous market review was broadly titled *"Market review into the supply of card-acquiring services"* and the PSR sought to investigate the functioning of the card-acquiring market generally, as outlined in the Terms of Reference which framed its approach to the market review in wide terms:-

- *"We are assessing whether the supply of card-acquiring services is working well for UK merchants, and ultimately consumers."*
- *"We will consider how competition is working in the supply of card-acquiring services and whether there are aspects of the market(s) that adversely affect competition in the supply of those services."*
- *"We will examine how competition in the supply of card-acquiring services operates."*

In its approach, the PSR listed 11 areas which it would investigate including:-

- *"the nature and characteristics of card-acquiring services and developments in the supply of these services"*
- *"who provides card-acquiring services and how the supply of these services has developed historically"*
- *"how the supply of card-acquiring services may differ across broad types of merchants"*
- *"the scope for differentiation and innovation in the supply of card-acquiring services"*
- *"the quality of service that merchants receive from their provider of card-acquiring services"*

Of those 11 areas which the PSR listed for investigation, only one referred to the fees paid by merchants. The PSR made no pre-judgement that the level or type of fees charged by acquirers was a matter of concern. It was one factor or indicator to consider in assessing the overall functioning of the market. The PSR's final remedies also identify quality of service as an important factor in driving switching.

By contrast, the current market reviews are titled *"Market review of card scheme and processing fees/ UK-EEA consumer cross-border interchange fees."* Rather than investigating the competitive functioning of card products more broadly the PSR is proposing from the outset to focus only on the

fees charged. The PSR will recognise (as it did in the card-acquiring market review), that fees are just one element of the functioning of a market. In order to understand the effectiveness of competition, it is necessary to examine many other factors which were included as part of the card-acquiring market review such as innovation, quality of service, changes in products over time and varying usage by different merchants.

As we describe in further detail in response to the questions below, by focussing only on fees, the PSR may be unable to draw firm conclusions about how competition in the cards sector has developed generally and to understand the huge increase in added value to merchants, which those fees reflect.

Responses to questions on 'market review of card scheme and processing fees'

We provide responses to each of the PSR's questions below, but first wish to highlight an additional important issue which the Terms of Reference do not appear to address, namely the scheme and switch separation requirements contained in Article 7 of the Interchange Fee Regulation.

The purpose of the separation is to create two distinct markets – a market for scheme services and a market for switching services. The separation requirements ensure that Mastercard's commercial strategies and decisions for each are made entirely independently and specifically that there can be no bundling of commercial offerings between scheme and switch. The effect is that Mastercard's customers will make separate and independent decisions as to whether to purchase Mastercard scheme services and Mastercard switch services. Therefore, although Mastercard participates in both markets in the UK, the PSR will need to consider them separately in line with the objectives and obligations which Article 7 imposes. For each market, there will be quite different market players, competitive constraints and market dynamics to consider, as well alternative options. In its final Terms of Reference, the PSR will need to outline how it intends to manage the separation and independently consider competitive constraints in each.

Question 1

- **Do you agree with our description of scheme and processing fees? If not, please explain:**
 - **how our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees**
 - **why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional**

Mastercard is broadly content with the PSR's description of its fees, except that 'processing' fees should more accurately be described as 'switching' fees. Processing is different and a much broader function than switching. It is undertaken by independent payment processors and includes a wider range of activities including for example issuing and acquiring processing services. The functions of authorisation, clearing and settlement of card transactions are collectively referred to as switching.

As highlighted above, as the Interchange Fee Regulation requires a separation of scheme and switch fees, it is an important distinction for the PSR to be aware of as it undertakes the market reviews. Different parts of Mastercard set those fees independently and they are subject to different competitive constraints. That separation may also limit the PSR's ability to investigate and reach general conclusions about the fees paid by issuers/acquirers.

The wide variety of types of Mastercard fees reflects the range of products and services offered, which is extensive. The PSR will be aware from the card-acquiring market review that some fees relate directly to transactions, but some do not, whilst other fees are avoidable in certain situations. The PSR is therefore likely to need to consider what further sub-categorisation of fees may be required in order for it to manage its investigation. Mastercard welcomes the opportunity to assist and engage with the PSR in that process in order to ensure a mutual understanding of the approach being taken and how a logical framework can be developed.

Question 2

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

Mastercard operates in an increasingly diverse competitive landscape. The PSR has not provided adequate justification for focussing only on Visa and Mastercard and excluding other providers of consumer to business payment services. In particular, excluding Amex (and other card schemes is incongruent with a review focused on fees (as the PSR proposes) as the fees charged by those other card schemes are generally amongst the highest in the market. It is overly simplistic to consider only total market share because schemes such as Amex have a much larger presence in specific important (and more profitable) sectors of the market such as cobrands (in which Amex is a market leader), premium consumer, commercial and cross-border/travel. By excluding Amex from the market review,

the PSR will be unable properly to investigate the competitive functioning of the market as a whole – and some of the most profitable parts of the cards sector and if (ultimately) any remedies do not apply to Amex, they will not benefit the category of merchants for which Amex acceptance is a critical part of their business.

Mastercard recognises the PSR is proposing to use 2014 as the starting point for its market review because that was the date chosen for the card-acquiring market review. However, that review began in 2018 and Mastercard believes that there is no logical reason to go back as far for the purposes of this market review, particularly because Mastercard understands that the PSR will be repeating its data collection process in any case and therefore will not be relying on the data which it previously collected. It is also important to note that the PSR chose 2014 for the card-acquiring market review specifically because it wanted to measure whether acquirers had passed on the interchange reductions of the IFR, but that 'before and after' analysis is not relevant for this market review. Indeed, the scheme and switch separation (also introduced by the IFR) is likely to add a further complication to the PSR's analysis and data collection. In any case, Mastercard believes that 8 years is an unnecessarily long period over which to conduct this market review and that 5 years would be more appropriate, because anything earlier is of very limited relevance to understanding the functioning of the market in 2022 and beyond.

More broadly, we have outlined above our concerns about the PSR limiting the scope of the market review only to fees, which is in stark contrast to the scope of the card-acquiring market review to "*examine the supply of card-acquiring services*" and everything associated with it. This narrow focus will inevitably limit the PSR's understanding of the market dynamics and risks findings being based an inadequate assessment of how the market functions. We address this risk further in response to question 3.

Question 3

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

As a result of the narrow scope, Mastercard believes that the proposed approach risks giving the PSR a limited and distorted view of the market. In particular, by not examining the competitive functioning of the payments market more broadly, the PSR appears to view Mastercard (and Visa) in isolation and not recognise the wider competitive retail payments market in which they operate.

The factors mentioned in paragraphs 2.7 and 2.8 are addressed in question 5 below and so here we focus on the issues listed in paragraph 2.9, which the PSR proposes to investigate. As highlighted above, Mastercard believes that those 14 issues of 'potential concern' which the PSR proposes to examine are too narrowly defined. Whilst acknowledging that they follow from the PSR's proposed scope, a limited focus on fees will not allow the PSR properly to understand: the evolution of services provided and the value delivered by cards; the differences between alternative payment methods/why certain payments better suit certain needs; the evolving nature of retail payments; and the factors influencing the effectiveness of competition.

The PSR should adopt a broader outcomes-focussed view of the retail payments sector and Mastercard (and Visa's) role within it. It should consider levels of satisfaction of both payers and payees and how they compare with alternative payment methods. It should examine the value proposition of cards and how that also compares with alternative payment options and the correlation between the value proposition and the fees charged. It should investigate how and why certain payers and payees may prefer certain payment methods for certain types of payment, the correlation with fees, and availability of steering options which enable merchants to direct payers to their preferred payment method. It should explore the changing competitive landscape of retail payments in the UK, what it will mean for card payments in the future and who competitive constraints will involve.

Without this type of investigation and analysis, the PSR will be unable to understand the wider market in which cards operate and the impact which it has on fees charge both now and in the future.

Question 4

- **Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?**
- **Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?**
- **In your response, please explain:**
 - **which scheme and processing fees we should or should not focus on**
 - **why you think we should focus on these scheme and processing fees**

As highlighted above, Mastercard's customers pay wide-ranging and diverse sets of different fees, reflecting the breadth of services our customers adopt and value which those services deliver. Many of the fees are optional, even for those issuers and acquirers that have already chosen the Mastercard payment network, giving issuers and acquirers the choice as to whether to procure certain additional products/services from Mastercard, to develop their own capabilities, buy them elsewhere or not at all. Some fees reflect services which are in effect provided to merchants, whilst others are more directly to the benefit of issuers and acquirers. The size and focus of an issuer or acquirer's business means that certain services may be of greater or lesser value to them and they will pay fees accordingly.

Merchants are one step removed from Mastercard. Mastercard generally has no contractual relationship with merchants, who do not pay Mastercard's fees directly. Acquirers will often pass on Mastercard's fees to merchants (in addition to their own margin) and they will decide whether and how to do so. No merchant is obliged to accept Mastercard, but those who choose to do so make that choice having weighed the benefits which they receive against the costs which the acquirers charge.

No payment method is cost-free for merchants to accept and the increased acceptance of digital payments is in part due to merchants growing recognition of the comparably higher costs of accepting cash. Different payment methods will incur different types of costs, which include direct costs (fees), indirect costs and back-office costs. It will be important for the PSR to recognise that although card payment costs are more easily identifiable (as they are charged directly as fees), similar costs exist for account to account payments. Most obviously, banks will recover the costs of managing Faster Payment transactions indirectly from their customers in different ways meaning that those costs are spread (less transparently) across the population of users and are therefore likely to be subject to limited competitive constraint.

The PSR is correct to recognise that it will in some way need to focus its examination of fees on certain types or categories of fees. The available time and resources may not permit the PSR to examine every fee individually and so the PSR may wish to consider narrowing the range of fees which it examines. However it chooses to do so, the PSR must ensure it provides a fair view of all of the fees charged and the value associated with them. Again, if the focus is too narrow on particular categories or individual fees, the PSR will not be able to develop a sufficient understanding of the competitive market in which those fees are set, because Mastercard looks at the whole landscape.

Question 5

- **Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?**
- **Are there other factors in relation to scheme and processing fees that we should be considering?**

We addressed the broader approach which Mastercard believes that the PSR should be taking in this market review in response to question 3. Here, we understand that the PSR is asking only about the particular factors which it will investigate in order to understand the level of competitive constraint which Mastercard experiences. We address each proposed factor in turn.

Firstly, the PSR's proposal to examine barriers to entry "*in setting up and running card payment systems*", suggests the PSR believes that the only form of competition which Mastercard and Visa may face is from alternative card schemes. Of course, the PSR will be aware from its own work that competition to card schemes is much wider and includes various forms of account to account payments, open banking, digital wallets, BNPL and others likely to emerge in the future such as stablecoins and person to person payment providers moving into person to business payments, as has been seen in several other markets. It is vital that the PSR take a broader view and recognises that there are non-card-based payment acceptance alternatives to Mastercard and Visa which exert increasingly competitive constraints on them.

Secondly, Mastercard welcomes the PSR's intention to investigate the varied alternative payment acceptance options available to merchants. As mentioned above, no merchant is obliged to accept Mastercard and those who do have different means of steering their customers to other options, if they wish to do so. The PSR's own evidence demonstrates that cards are the preferred payment method of many merchants, taking account of costs incurred and the benefits received. Nevertheless, in some sub-sectors, cards have a small market share compared with other payment methods such as cash, direct debit or account to account options.

Thirdly, the proposal to investigate the lack of fee transparency of card scheme fees for merchants is somewhat misconceived. As the PSR will be aware, it is acquirers (and issuers), not merchants, who pay Mastercard's fees. Any merchant concerns about lack of fee transparency can only relate to the acquirer fees which they pay, in respect of which Mastercard has no visibility (let alone control). Of course, the PSR investigated the issue of acquirer fee transparency in detail during the card-acquiring market review and is currently proposing remedies to address its concerns, but this cannot form any

basis for a conclusion that Mastercard (and Visa) have market power or face weak constraints. As for our range of scheme fees, these are available in full to our acquirers and they may in turn be communicated to merchants when the acquirer chooses to do so. The detail of each of Mastercard's individual fees will in many cases be more than is useful to a particular merchant, as our diverse and wide-ranging fee schedule reflects the range of different services adopted by some (but not all) of Mastercard's customers.

Fourthly, we welcome further engagement with the PSR about how Mastercard fees are charged to different customers. In simple terms, Mastercard does not differentiate its fees in this way and they apply on a non-discriminatory basis to all customers. The PSR will be aware from its card-acquiring market review that acquirers do differentiate in how they charge merchants, whilst issuers may recover their costs from their customers in many different ways.

Responses to questions on 'market review of UK-EEA consumer cross-border interchange fees'

Question 1

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

Mastercard is satisfied with the scope of the review being limited to UK-EEA cross-border consumer interchange fees. We understand why the PSR is choosing to focus on outbound interchange fees being paid by UK merchants, but, as we describe further below, it is important to recognise the purpose of interchange and the benefits which it drives.

Whilst it may be a cost to acquirers/merchants, it is an important source of revenue for issuers to cover the costs which they incur in providing card payment services to their customers. Therefore, although the PSR may have no need to investigate the interchange fees which are paid by EEA merchants, it should be mindful that those same interchange fees are received by UK issuers and help fund the services which the PSR values in promoting the interests of UK consumers. Of course, the same occurs in reverse which will be important for the PSR to bear in mind as it investigates the interchange fees paid by UK merchants.

Therefore, although Mastercard has no comments on the scope (in terms of card and transaction type), we believe that it is important that the PSR looks beyond a simplistic view of the level of the fee, in order to understand what the fee is actually for and how it contributes the development of card payments more broadly.

Question 2

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

Mastercard recognises that the PSR wants to understand the impact of interchange levels. Mastercard agrees with this approach, but it is important that the PSR undertakes the task comprehensively and does not look only at one side of the market.

Any investigation into interchange requires the PSR to examine the purpose and benefits of interchange. A cost to a merchant/acquirer generates a commensurate source of revenue, investment and cost recovery to the issuer. The PSR understands that Mastercard does not receive interchange and is therefore objective in determining the level at which it is set. Mastercard sets interchange fees at levels which fairly balance the interests of issuers and acquirers (and their respective customers) and the value which the card payment generates. As is well-recognised, that will differ according to many factors such as markets, transaction type and user type.

Mastercard welcomes the opportunity further to engage with the PSR about the vital role which interchange plays in the cards ecosystem, the benefits of setting the fees at a particular level and how it promotes positive benefits and value to all participants.

Question 3

- **Do you have views on the potential concerns we propose to investigate (set out in para 2.5)?**
- **Are there other concerns with cross-border interchange fees that we should be considering?**

These issues are largely addressed in response to question 2.

The PSR appears to be pre-judging its analysis of interchange by referring to "*potential harm to competition, innovation or service-users*": the PSR should identify what harm they have in mind and

what evidence there is to already suggest that such harm is occurring. Mastercard is not aware of evidence of any harm of this kind, but does intend to present strong evidence to the PSR that setting interchange at the correct level does support each of the PSR's objectives as it: promotes competition (by providing a vital source of revenue to smaller, new entrant issuers); promotes innovation (by providing the revenue necessary for issuers to invest in card payment innovation); and promotes the interests of service-users (by increasing the availability, resilience, security, convenience and functionality of card payments). In addition, it also promotes efficiency by encouraging consumers to select payment methods that are low-cost to merchants, which is a key benefit of interchange.

As outlined above, any proper assessment of interchange must examine the impact on both sides of the market. The PSR must ensure that its approach and its focus is objective in that respect and does not view interchange fee simply as a cost which must be justified, but appreciates that there is also a benefit which should be recognised.

All queries in relation to this response should be to [REDACTED]
[REDACTED]

Payments Association



connecting the future

Market Review of card scheme and processing fees

**PSR
June 2022**

Response from The Payments Association

Introduction

The Payments Association welcomes the opportunity to contribute to the PSR “*Market Review of card scheme and processing fees*”.

The community’s response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As The Payment Association’s membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by Robert Courtneidge, The Payments Association’s policy advisor. We would also like to express our thanks to the PSR for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK’s payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

With special thanks to:

- [REDACTED], Co funder and CEO, Weavr
- [REDACTED], Head of Product Pricing, Trust Payments
- [REDACTED], Principal Payments Consultant, ENDAVA
- [REDACTED], Director of Product – Card Payments, Modulr
- [REDACTED], Founder & CEO, StarLiX
- [REDACTED], Director of Relationship Management, Chargebacks911
- [REDACTED], CEO, Transact365
- [REDACTED] Regulatory Change Manager, Modulr
- [REDACTED], Project Cross Border Lead, The Payments Association
- [REDACTED], Global Head of Card Business, Nium
- [REDACTED], Director, Payments Consultancy Ltd
- [REDACTED], CEO, Paynetics UK
- [REDACTED], Head of Payment Card Scheme Compliance, DECTA
- [REDACTED], Board Member & Head of Product Offering DECTA
- [REDACTED], General Manager (UK), Payabl Ltd
- [REDACTED], Head of Europe and Global Head of Travel Payments, Nium
- [REDACTED], Director of Product, Modulr

Please note that this response does not reflect the views of Mastercard or Visa.

[REDACTED]
Director General
The Payments Association

Contents

The section numbering below corresponds to the numbering of the 'questions for respondents' in this paper.

1. Do you agree with our description of scheme and processing fees?

Our members largely agree with the description of scheme and processing fees on the basis that a "Card Payment System Operator" refers to either Visa or Mastercard. However, some members have suggested including additional terminology used by the schemes such as service charges, assessment fees and billable indicators because it is important that all forms of scheme fees, however they are described, are included in the scope. Overall, we would like to see this resulting in greater consistency in terminology.

By way of simple explanation:

- **Scheme fees** (or assessment fees as they are also known) are the fees levied by the schemes on the acquirer. The acquirers pass those fees onto the merchant of course. Scheme fees comprise a combination of a fixed fee and a percentage cost. Therefore, we have two elements to factor in. *Note:* fees vary based on transaction amount and the size of the acquirer (the greater the volume the acquirer processes, the lower the overall scheme fees according to the tiers provided to the acquirer by the schemes).
- **Processing fees** are the fees levied by the acquirer to the merchant in addition to the base costs of Interchange, Assessment, refunds, chargebacks, foreign exchange or settlement costs. Where Interchange cannot be marked up, then the acquirer may apply additional fees on top of chargeback, refund, authorisation fees etc.

In terms of optional fees, these are minimal and include setup fees, monthly fees and annual fees. These are simply fees added by an acquirer who might wish to find additional lines of revenue. From a merchant's perspective, almost no fees are optional. The real challenge is that, whilst most fees are transparent (interchange fees are heavily documented online), and chargeback, refund, fx fees etc are all laid out in the scheme contract, some scheme fees can be opaque and tricky to calculate. Greater clarity on these would be appreciated by our members, where possible.

2. Do you agree with the proposed scope of the market review?

We largely agree with the proposed scope but would make the following comments:

- The term 'service users' should include both card issuers and acquirers? It was unclear whether it includes both.
- The scope should pay special attention to the variability of effective economics that apply to the large players towards the small players.
- If possible, the scope should be extended to cover how fees are allocated through the value chain.
- Within the scope, it is important to see the schemes as part of the wider retail payments market; to compete with the schemes you don't need to be a scheme, (e.g. PayPal) – competitive factors often come from non-card schemes.
- If within the scope you are including "processing fees", these should be clearly distinguished from "scheme fees" as they are charged by the processor not the scheme.

3. Do you agree with our proposed approach to the market review?

Once again, we and our members are generally in agreement with your approach but would make the following comments:

Whilst the initial objective enforced transparency, the growth of optional services has blurred this. In theory, merchants have choice but this is often not the case. Optional services are where our members believe the majority of scheme fee increases have happened in the last few years. Some of our members believe this approach does not encourage the roll out of 3DS – 3DS should offer consumers greater safety when they transact and reduces fraud.

There is a concern that the approach is very broad and hence challenging to deliver. There is a suggestion that to focus on specific transactions rather than all transactions would deliver a swifter and more defined result. One option would be to look at large domestic transactions where there appear to be a large number of complaints.

One member made specific reference to the second bullet of 2.7 related to payments acceptance alternatives. They believed that the growth of alternative payments methods (APMs) means that there are more competitors to the schemes.

4. Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?

By way of introduction, a common theme across all members is that scheme fees are generally extremely complex, and difficult to analyse and this often makes it difficult to properly review and manage. Allied to this, members would like to understand why the schemes have increased their fees and how this has affected the value chain. Specifically:

The concept of value added services or optional services remains a grey area; optional fees are often de facto mandatory and this has contributed to some of the fee increases since 2014.

3DS costs – not every participant in the market understands the cost of every transaction. The schemes have effectively doubled 3DS v1 authentication fees which has had a major impact on merchants. Some of our members believe that any future scheme fees price increase should be assessed and justified before being imposed.

CNP scheme fees are being applied when the customer is in fact present at the store. Specifically authentication fees and billable indicators which have added considerable costs to merchants and these are non-negotiable.

One member believes focus should be on domestic and face-to-face rather than every type of fee.

Other members have pointed out that fees do not always represent the entire cost, as penalties can represent a significant cost item – so should these be included in any review.

One member pointed out that, for pan-European fees, when transactions go up in value Visa fees reduce, whilst at MasterCard when transactions go up in value the fees remain almost the same (so proportionally their fees go up).

Are there specific types of scheme and processing fees we should not focus on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?

One member specifically noted that core scheme fees have not changed, hence there is no need to look at them (e.g. 2.5, 2.11, 2.12, 3.4.1, 3.4.2, 3.4.3, 5.2.1, 5.2.1, 5.2.3).

5. Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?

A number of our members noted that they expect the PSR to be very robust with the schemes, show teeth and take strong action to ensure competition. One member noted that when schemes raise their fee “there isn’t much anyone can do except raise their own prices and hit the consumer”.

Specifically, some of our members have proposed the following:

2.7 should be expanded to consider the final destination of the money coming from increased fees and its impact on market competition.

The contribution of acquirers vs issuers is relevant to the study and the proportionality of the fees paid by the smallest entities vs the ones paid by the largest ones.

The key objective should be to reduce complexity and achieve transparency. Currently, acquirer and merchant statements and billing systems use different formats, terminology and at times fail to correctly separate scheme fees from interchange fees.

On 2.8, it is critical to establish the relationship that exists between the four moving parts here – namely the schemes, issuers, acquirers and merchants. In the simplest form, the issuers control the interchange, the schemes control the scheme/assessment fees, the acquirer controls the end processing costs and the merchant controls nothing. The three cost models put to the merchant are a blended rate, where all fees are rolled into an end rate to the merchant; the Interchange + model where the fees are broken out to cover Interchange + acquirer fees and the Interchange ++ model which also is + scheme fees. The last of these is the most opaque to the merchant as scheme fees can vary enormously. The other two can leave the merchant out of pocket if scheme or Interchange fees change.

Finally, one member has suggested that 2.7 should be rephrased to consider the barriers to “running a payments system” and not just a “card payments system”.

Are there other factors in relation to scheme and processing fees that we should be considering?

The only real comment here is to reiterate 2.7, in the need to consider barriers to entry and a continued call for greater simplicity and transparency in scheme fees.

About The Payments Association

The Payments Association (previously the Emerging Payments Association or EPA) is for payments institutions, big & small. We help our members navigate a complex regulatory environment and facilitate profitable business partnerships.

Our purpose is to empower the most influential community in payments, where the connections, collaboration and learning shape an industry that works for all.

We operate as an independent representative for the industry and its interests, and drive collaboration within the payments sector in order to bring about meaningful change and innovation. We work closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

Through our comprehensive programme of activities for members and with guidance from an independent Advisory Board of leading payments CEOs, we facilitate the connections and build the bridges that join the ecosystem together and make it stronger.

These activities include a programme of monthly digital and face-to-face events including our annual conference PAY360 and awards dinner, CEO round tables and training activities.

We run 6 stakeholder working Project groups: Inclusion, Regulator, Financial Crime, Crypto and Digital Currencies, Cross Border and Open Banking. The volunteers within these groups represent the collective view of The Payments Association members at industry-critical moments and work together to drive innovation in these areas.

We also conduct exclusive industry research which is made available to our members through our Insights knowledge base. These include monthly whitepapers, insightful interviews and tips from the industry's most successful CEOs.

See www.thepaymentsassociation.org for more information. Contact [REDACTED] for assistance.

Private individual

20 July 2022

ATTN: Scheme and processing fees market review team
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

RE: MARKET REVIEW OF CARD SCHEME AND PROCESSING FEES

Submitted via electronic mail to: cardfees@psr.org.uk on 20Jul22, @ approx. 1610hrs Sydney time.

To Whom It May Concern:

I thank the Payment Systems Regulator (PSR) for the opportunity to provide feedback on this matter.

May I commence by commending the PSR for investing its resources to ensure competition, efficiency and stability remain at the forefront of the UK's payments system. Equally, the multiple reviews, consultations and final rules, among other invested efforts, the PSR has produced over the years, that all contribute to ensuring the UK's payments system operates in a fair and equitable manner across all participants and consumer groups.

As a background to my payments experience, I had my first exposure to payments when I commenced with the Commonwealth Bank of Australia (CBA) where I risk assessed potential card fraud from the unlawful interception of mailing inactive debit and credit cards, to what the CBA had analysed as, *cardholders' non-theft prone postcodes*, during the mid-1990s. This strategy was aimed at migrating cardholders away from collecting their cards at their branch. And instead, utilise telephone banking to activate inactive cards received in the mail thereby, maximising more time for branch staff to focus on core sales.

Through the efflux of time, I upheld more payments positions where I spent four years with the Royal Bank of Scotland's (RBS) Retailer Card Services across card issuing and merchant card acquiring, in the UK. During which, I negotiated card agreements with the major card payment schemes (Visa and Mastercard) and, AMEX. These card agreement negotiations with the card payment schemes intensified when the RBS, in conjunction with Fortis Bank and Santander, acquired ABN AMRO's cards portfolios across the Middle East and Asian regions, during the peak of the GFC. I further oversaw the implementation of card payment schemes' mandatory changes and card interchange fee changes for the RBS' acquired merchants.

It was during my tenure with the RBS that I witnessed a progressive and annual sharp incline in card scheme and processing fees from Visa and Mastercard, while further evidencing, especially from my Finance colleagues, the challenges they faced, in ascertaining a transparent breakdown and justification of these rising card scheme and processing fees.

Upon returning to Australia, I secured a position with the Reserve Bank of Australia in its Payments Settlements department, where I established a new and industry-wide payments regulatory compliance framework for 25 banks that were under my supervision to report their significant operational retail payments systems incidents (incl., card payment systems incidents.) During this

time, I reviewed and responded to approximately 350 significant operational retail payments systems incidents reported to me by banks.

Since then, I have moved further along my career's trajectory in payments, underpinned by regulatory reforms, particularly across cards. Where I provided compliance advice to my then employer's several client financial institutions, for whom it provided wholesale banking services for, on the Australian Securities and Investments Commission's review into credit card lending in Australia¹.

In closing, please be advised, any and all comments I provide in my feedback are done so a member of the public.

Please proceed to the following pages, where I respond to the PSR's questions on this market review.

Kindest Regards,

A solid black rectangular redaction box covering the signature area.

¹ [Credit Card Lending in Australia - Report 580, Australian Securities & Investments Commission, July 2018.](#)

QUESTION 1

- Do you agree with our description of scheme and processing fees? If not, please explain:
 - how our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees
 - why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional
- Please include any evidence you think is relevant to your response.

FEEDBACK PROVIDED IN RESPONSE TO QUESTION 1

I generally concur to the PSR’s description of scheme and processing fees in paragraph 1.7. Equally, I agree with the preceding paragraph (1.6) that calls out the fact that a merchant service charge also includes scheme and processing fees:

- **merchant service charge (MSC)**, which is the total amount merchants pay to acquirers for card-acquiring services; this comprises interchange fees, **scheme and processing fees and acquirer net revenue**

QUESTION 2

- Do you agree with the proposed scope of the market review? If not, please explain:
 - how the proposed scope should be altered
 - why you think the proposed scope should be altered in this way
- Please include any evidence you think is relevant to your response.

FEEDBACK PROVIDED IN RESPONSE TO QUESTION 2

I generally concur with the PSR’s proposed scope of the market review. However, I do take this opportunity to ask that the PSR considers expanding on its point in paragraph 2.5:

2.5 At this stage, we do not limit the scope of the market review to the scheme and processing fees paid by any particular types of service-users.

I would strongly recommend the PSR cast its regulatory net across several service-users in its market review. At least to the extent that any such service-users are significant enough to yield their market dominance that results in changes to, or may influence card payment schemes’ pricings, that can have an impact on card payments in the UK.

I focus specifically on developments when during late last year and early in 2022, Amazon (*assuming the PSR deems Amazon a service-user*), threatened to stop accepting UK issued Visa credit cards, originally planned from 19 January 2022. Amazon threatened to pursue this manoeuvre sighting increased cost of card acceptance fees². Noting, card acceptance fees (merchant service charges,) charged to merchants, also include scheme and processing fees (*raised above in my response to question 1.*)

² [Amazon to stop accepting Visa credit cards in UK. BBC Business Report. Espiner., T. 18 November 2021.](#)

As the matter transpired, both Amazon and Visa were able to reach an agreement, and the 19 January 2022 deadline lapsed without affecting UK issued Visa credit card holders³. However, what this incident potentially highlighted was the dominance that one global entity can hold in influencing the outcomes of the UK’s card payments system for its own, and its own merchants’, benefit. At least to the extent of online sales and payments facilitated by UK issued credit cards.

While Amazon’s actions, had they been followed through, may have resulted in cost savings extended to merchants for card scheme and processing fees, equally, this may have resulted in online merchants losing significant revenues from lost sales. At least to the extent that some cardholders in this instance, may not have had alternate card payments options. Recognising, this entire matter unfolded without regulatory response nor intervention.

Also, had Amazon proceeded with its intended actions, this may have resulted in considerable inconvenience for cardholders, and during a period when UK online sales have significantly spiked during the pandemic, and across multiple sectors⁴. Reverberating the aforementioned comment that some cardholders may not have had alternate card payments options to buy goods and services during a heightened period of online activity caused by the pandemic.

While some proponents may state Amazon’s intervention may have brought about a favourable outcome for its merchant community, equally, at what point should a regulator intervene, especially in the payments system, when such matters occur, resulting in a material alteration to the payments landscape? And at the potential detriment of cardholders, issuers, merchants, and card payment schemes? Either jointly or severally.

Therefore, the PSR could benefit in expanding any limitations brought on by of paragraph 2.5 where there is the possibility that service-users further play a hand in influencing card scheme and processing fees. Especially those with dominant market share; appreciating the sheer magnitude of volume and value of the UK’s payments industry.

QUESTION 3

- *Do you agree with our proposed approach to the market review? If not, please explain:*
 - *how the proposed approach should be altered*
 - *why you think the proposed approach should be altered in this way*
- *Please include any evidence you think is relevant to your response.*

FEEDBACK PROVIDED IN RESPONSE TO QUESTION 3

Generally, I concur with the PSR’s proposed approach. I wish to call out one particular aspect of the PSR’s approach, which is noted in the second bullet point of paragraph, 2.7, as the ‘*must take*’ status, to highlight the importance of this area of the PSR’s approach, to a recent regulatory and legal development in Australia.

Recently, the Australian Competition and Consumer Commission (ACCC), filed action in the Australian Federal Court against Mastercard Asia/Pacific Pte Ltd and Mastercard Asia/Pacific (Australia) Pty Ltd (Mastercard Pacific/AU).

³ [Amazon halts plan to block UK Visa credit cards amid talks. BBC Business Report. 17 January 2022.](#)

⁴ [Online shopping has surged during the pandemic - but can retailers keep pace with continuous high demand? Jobling., P. 2 August 2021](#)

The ACCC alleged Mastercard Pacific/AU provided businesses (merchants) with favourable discounts to their Mastercard credit card transactions if they committed to routing all, or most of their dual network debit Mastercard card transactions through its network, and not through the cheaper Australian domestic card payment scheme (*eftpos*) network (aka *least cost routing*)⁵. The ACCC's Chair noted in the media release:

"We allege that Mastercard had substantial power in the market for the supply of credit card acceptance services, and that a substantial purpose of Mastercard's conduct was to hinder the competitive process by deterring businesses from using eftpos for processing debit transactions,"

This particular payments regulatory matter further highlights the need for such a review by the PSR to ensure that card payment schemes' contractual agreements with issuers, acquirers, and any merchants, are in place to promote competition. And prevent an entity like Mastercard, in this instance, to potentially distort competition and/or abuse its dominance.

I would further request the PSR considers and compares, as part of its approach to this market review, to also review the application of card scheme and processing fees by Mastercard and Visa across domestic, intraregional and interregional jurisdictions. With the aim to establish some level of uniformity, or, if there are inconsistencies in card scheme and processing fees across jurisdictions, how they are justified. And if these justifications are made with reasonable methodology that promotes competition.

Granted, a multi-jurisdictional review may fall outside the remit of the PSR however, there may be valuable insights that the PSR may gain from in pursuing this line of inquiry in the lead up to, inclusion and publication of its Final Rules.

QUESTION 4

- *Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?*
- *Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?*
- *In your response, please explain:*
 - *which scheme and processing fees we should or should not focus on*
 - *why you think we should focus on these scheme and processing fees*
- *Please include any evidence you think is relevant to your response.*

FEEDBACK IN RESPONSE TO QUESTION 4

Digital payments and transactional solutions firm, Bambora, (now known as Worldline,) provides a worthy list of the top 5 card scheme and processing fees applied by Mastercard and Visa.

⁵ [Mastercard in court for alleged misuse of market power over card payments. The Australian Competition & Consumer Commission. Media Release 30 May 2022.](#)

This list provided for each of the two card payment schemes subject to this market review, I believe, and through my industry experience, would serve the PSR well in utilising as a list which the PSR should focus on⁶:

Mastercard Top 5

1. **Cross Border Fees** – Fees applied to intra- and interregional transactions, (*i.e.*, when the merchant and issuer country are not the same⁷.)
2. **Assessment Fees** – Fees that are applied based on the processed transaction volume, development fees, contributions to innovation and marketing funds and more.
3. **Clearing Fees** – Fees related to clearing, including currency matching, multicurrency settlements, card-not-present fees and more.
4. **Authorization Fees** – Fees related to the authorization of transactions, including pre-authorization, address verification, account status inquiries and more.
5. **SecureCode Fees** – Fees related to authentication of secure e-com transactions via Mastercard.

Visa Top 5

1. **Clearing and Settlement** – Fees related to clearing transactions and settlement of funds.
2. **Mandatory Service Components** – The international acquiring fee (IAF) applied to inter-regional transactions, the IAF card-not-present fee, fraud & dispute related fees and more.
3. **Authorization** – Fees related to the authorization of transactions.
4. **Quarterly Operating Certificate Fee Components**⁸ – Card Present and Card-Not-Present service fees.
5. **Optional Service Elements** – Fees related to authentication of secure e-com transactions via Visa.

It would serve the PSR to focus on the above top 5 card scheme and processing fees spread across Visa and Mastercard. As from my experiences, clearing, settlement, and authorisation, summate to account for the majority of card scheme and processing fees.

QUESTION 5

- *Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?*
- *Are there other factors in relation to scheme and processing fees that we should be considering?*
- *Please include any evidence you think is relevant to your response.*

⁶ [The Transaction Economics of Scheme Fees. Worldline. 25 May 2021.](#)

⁷ This point ties into the comments raised in Question 3 where the PSR may consider a multi-jurisdictional review of card payments schemes’ card scheme and processing fees.

⁸ [Visa Core Rules and Visa Product and Service Rules \(April 2022.\)](#) On page 850 of Visa Core Rules and Visa Product and Service Rules, an Operating Certificate is defined as: *A report that a Member or Non-Member Administrator submits and certifies to Visa at a pre-determined time specified by Visa, detailing its **issuing and/or acquiring statistics.***

FEEDBACK PROVIDED IN RESPONSE TO QUESTION 5

Generally, I concur with the PSR’s approach in specificity to this question. However, I would strongly recommend the PSR further considers other factors which could form part of its Market Review, to consider including, and not necessarily be limited to:

1. The unit cost applied to card scheme and processing fees across multiple card products (e.g., across low rate, premium and platinum cards,) and assess if there is a causal relation to determine if card scheme and processing fees/fee increases are applied uniformly and fairly, or otherwise.
2. Continuing from the above point, for the PSR to investigate if card scheme and processing fees for specific card product(s) may result in the cross-subsidy of other card products. Specifically, if card payment schemes are pricing card scheme and processing fees higher for specific card product types, to subsidise card scheme and processing fees for other card products which may be accepted more commonly by larger merchants⁹.
3. How card payment schemes invest or reinvest revenues from card scheme and processing fees across their operations. If there is the potential that card payment schemes may over allocate revenues to specific issuers, in preference of other issuers in the course of incentives paid by card payment schemes to issuers.
4. How effectively card payment schemes are utilising their clearing and processing systems technologies to bring about cost efficiencies of card scheme and processing fees from increases in card transaction volumes or, increases in a specific category of card transactions (e.g., potential economies of scale from a rise in contactless and/or card not present transactions brought on by the pandemic¹⁰.)
5. If card agreements¹¹ between card payment schemes and issuers provide scheme fee rebates, subject to incentives received for meeting or exceeding gross dollar volume targets, do these card scheme fee rebates potentially result in being cross-subsidised by other card issuers and/or acquirers paying more card scheme and processing fees?
6. Similar to how top tier strategic merchants may benefit from lower interchange rates, for the PSR to consider investigating if these larger merchants, also benefit from lower scheme fees incorporated into their merchant service charges and if smaller and medium sized merchants are/are not cross-subsidising any such benefits that may be afforded to larger merchants.

-Ends-

⁹ Please refer to the ACCC and Mastercard Pacific/AU matter raised under Question 3 of this feedback paper.

¹⁰ [Online shopping has surged during the pandemic - but can retailers keep pace with continuous high demand? Business Live. Jobling., P. 2 August 2021.](#)

¹¹ Card agreements (sometimes known as Rebate Agreements or, Partnership for Growth Agreements,) are commercial arrangements between card payment schemes and card issuers, where issuers (and at times, acquirers,) are financially incentivised for meeting or exceeding (and can be penalised for not meeting,) domestic and international gross dollar volumes, launching new products tied to that particular card scheme, benefiting from rebates (incl., scheme fees, card payment schemes’ consultant fees, capital investment incentives for launching a card payment schemes’ new product against a competitor card payment scheme, sign-on bonuses and marketing support etc.)

Revolut

Revolut

Revolut Ltd Response to the PSR's Scheme and processing fee consultation

Date: 1 August 2022

To: Scheme and processing fees market review team

Question 1 - Do you agree with our description of scheme and processing fees? If not, please explain:

- How our description should be altered and whether there are alternative approaches to categorising Mastercard and Visa scheme and processing fees
- Why you think the description should be altered in this way. For example, you may think it is important to distinguish between fees which are mandatory and those which are optional

Please include any evidence you think is relevant to your response.

Yes. No comments.

Question 2 - Do you agree with the proposed scope of the market review? If not, please explain:

- how the proposed scope should be altered
- why you think the proposed scope should be altered in this way

Please include any evidence you think is relevant to your response.

[REDACTED] card scheme and processing fee increases are a focus today, notably in how they may be offsetting savings for smaller merchants from declines in other elements of the MSC, there is a risk any intervention on card scheme fees in isolation would be offset by other intermediaries with market power increasing other fees.

We would recommend to also include an assessment of the effectiveness of the processing separation rules, given their direct link to the charges levied for processing by the main schemes. [REDACTED]

We would also suggest a review of associated non-card scheme related fees, rebates and benefits that issuers, merchants and acquirers can be exposed to (or benefit from) - such as

[REDACTED]

Dynamic Currency Conversion (DCC) fees or Buy Now Pay Later fees. In addition, value added services provided by certain issuers, acquirers or schemes (e.g. connecting merchants with potential customers, offering lower abandonment check out solutions, lower fraud or more frictionless SCA implementation) should be taken into account as part of the total value proposition beyond MSCs.

We also believe to complete an effective investigation the trend on fees for alternative payment methods beyond the 4PS cards will need to be examined, as competition from outside the cards ecosystem will increasingly be a feature of the UK payments market.

Question 3 - Do you agree with our proposed approach to the market review? If not, please explain:

- how the proposed approach should be altered
- why you think the proposed approach should be altered in this way

Please include any evidence you think is relevant to your response.

We would recommend to include an analysis of other payments markets outside the UK, notably those where Visa and Mastercard total share of card transactions is not as significant (e.g. France, Netherlands, Poland) or where processing is done through local national switches, to determine if trends in scheme and processing fees are aligned with those observed in the UK.

Question 4 - Are there specific types of scheme and processing fees we should focus our work on? Perhaps because the scheme and processing fees represent a large percentage of total network fee revenues or because they have changed substantially?

- Are there specific types of scheme and processing fees we should not focus our work on? Perhaps because the fees represent a small percentage of total network fee revenues or because they have not changed substantially?
- In your response, please explain:
 - which scheme and processing fees we should or should not focus on
 - why you think we should focus on these scheme and processing fees

Please include any evidence you think is relevant to your response.

Acquiring scheme and processing fees appear to be where the most significant increases have taken place since 2015. It may therefore be useful to focus primarily on how and why these fees have increased, and what non-price interventions could help increase competition and provide more choice for merchants and acquirers (e.g. building on the positive remedies under consideration in the PSR's Acquiring Market Review).

Issuing scheme fees do not appear to have risen in a manner to materially impact total cost of acceptance. The complexity of the issuing market (where competition in payments can have major implications on the ability for new entrants to drive competition in other retail banking services) also would mean before any interventions could be considered extensive non-payment market data collection would need to be undertaken to ensure unintended consequences are avoided on UK end users. The increasingly regional and global nature of competition in retail banking services also would need to be considered. For example, a UK specific intervention on issuer related scheme fees could undermine UK based institutions from being able to successfully scale and expand outside the UK.



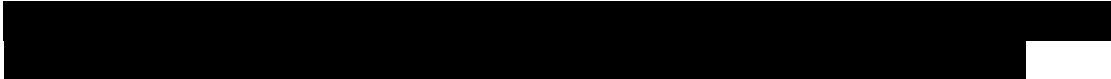
Question 5 - Do you have views on the potential factors that we propose to investigate (set out in paragraphs 2.7 and 2.8)?

- Are there other factors in relation to scheme and processing fees that we should be considering?

Please include any evidence you think is relevant to your response.

Revolut is an issuer, acquirer, and merchant - and is constantly innovating to offer best in class experiences for our customers whether they choose to use cards or non-card alternatives (e.g. A2A solutions based on faster payments). We therefore see the debate on scheme fees from all angles.

The measures listed in 2.7 and 2.8 are relatively comprehensive. We would strongly recommend though that the PSR focus primarily on why alternatives to the Visa and Mastercard card schemes have not yet emerged at scale, and to ideally identify specific regulatory measures which could be undertaken to enable new schemes or payment methods to emerge. We believe rather than attempting to cap or control specific fees within the card ecosystem, the PSR should use its powers to help create and scale genuine alternatives. Actions which could be considered:

- Accelerating the roll out of A2A API improvements (e.g. refund via API), and ensuring OBIE 2.0 (post JROC) retains strong governance to ensure merchant and consumer groups can influence future developments
- Ensuring A2A payments remain competitive on cost versus cards
- 
- Fast tracking regulatory clarity over the use of stablecoins for retail payments
- Delivering 'Open Banking for Merchants' by expanding the definition of Payment Accounts to include transaction data held by acquirers so merchants (notably small merchants) can get transparency on their costs and easily compare how they may be better served by alternative payment schemes or solutions
- Engaging with the UK's Office for Digital Identity and Attributes to expedite the roll out at scale of digital identity programmes for merchants to enable faster digital onboarding (reducing friction when switching to new providers or payment systems)
- A broader review of existing payment regulation to determine what rules, if any, are holding back the emergence of new UK schemes

We thank the PSR for the open consultation and stand ready to support your efforts to increase competition and choice in the UK payments market.

Tesco

Office of Chris Hemsley, MD
Scheme and processing fees market review team
Cross-border interchange fees market review team
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN
cardfees@psr.org.uk

1st August 2022

Dear Mr Hemsley

I am writing in response to the PSR Consultation papers 'MR22/1.1 Market review of card scheme and processing fees' and 'MR22/2.1 Market review of UK-EEA consumer cross-border interchange fees'. We welcome the reviews and as you are aware have been in discussions with the PSR over the last 3 years about our concerns with increasing card scheme and processing fees.

In 2019 we wrote to the PSR advising that since the Interchange fee regulation in late 2015 scheme fees have grown across the Tesco retail and wholesale business threefold with no evidence to show the benefits that these cost increases deliver to our business, our retail customers, or our business customers, who are all affected.

This trend in scheme fee increases has continued and we are now at fourfold our previous costs with no evidence to show the benefits. This is particularly difficult for businesses and consumers faced with cost-of-living challenges and we would ask the PSR for timelines for this review to be completed and consideration of imposing interim measures to cap fees during their investigation to mitigate further increases during this difficult consumer environment.

We would also like the PSR to consider widening the wording around the scheme fee review to include ALL fees charged by Visa and Mastercard for card processing that are passed through an acquirer to the merchant, including but not limited to scheme and processing fees. Ensuring a full review.

As a mainly domestic retailer the UK-EEA consumer cross-border interchange fees increase has not had a major impact on our business's although we do fully support the market review. We would ask the PSR to consider broadening the scope of the Interchange fee review to look at other costs that were not capped in the 2015 regulation, for example business/corporate cards.

In April 2022 Visa Business debit card transactions interchange fees increased from [REDACTED] (capped at [REDACTED] to between [REDACTED] and [REDACTED] per transaction. For our wholesale business Booker this increase has been estimated to cost the business a further [REDACTED] with no benefit to the Booker business but with a downstream impact onto our smaller business customers and then onto their retail customers.

We would welcome any direct consultation with the schemes to discuss proposed scheme or interchange fee changes using our experience as the largest retailer and a wholesaler across the UK but disappointingly this is not the current process.

If you would like to discuss any of the points in this letter, then please do not hesitate to contact me as we would be very happy to discuss this issue with you directly.

Yours Sincerely,

[REDACTED]

For and on behalf of
Tesco Stores Limited, Booker Group and One Stop Stores Limited

UK Finance

PSR consultations on:

- **Card scheme and processing fees market review**
- **UK-EEA consumer cross-border interchange fees**

UK Finance Response

Date: Tuesday 2 August 2022

UK Finance is the collective voice for the banking and finance industry.

Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

INTRODUCTION

UK Finance represents a wide range of payment providers, including card schemes, acquirers and issuers; interbank payment providers; payment gateways; and third-party providers.

UK Finance is submitting a joint response to the two proposed market reviews' terms of reference – the first on card scheme and processing fees; and the second on cross-border interchange fees.

Primarily, this is because both market reviews require a detailed analysis of business models and fee structures of the Visa and Mastercard payment systems, as well as the broader payments market, and as a trade association we are not in a position to do so. Our response is therefore restricted to high-level commentary on the nature of the payments market, and to general considerations on the scope and approach of the market reviews.

UK Finance is unlikely to respond formally to the later stages of these market reviews for the same reasons, although as always, we stand willing to help the PSR in its considerations.

OVERARCHING COMMENTS

- The payment market in the UK is extremely competitive and evolving rapidly. Consumer choice in retail payments has increased in recent years, notably with the introduction of Open Banking and Buy-Now Pay-Later and more recently crypto payments, benefitting users by providing merchant choice in acceptance and improving efficiencies in payment provision. Competition therefore should be viewed not only within the existing card payment ecosystem, but also in the context of other payment developments. In order to maintain this competitive market and the associated benefits for consumers, regulators and policymakers should ensure all types of payment methods are able to compete in the same, fair, and even manner.
- Card payment systems are broadly recognised as a benchmark for other payment systems where similar sophisticated commercial model(s) are needed. Some members agree that the commercial underpinning of the four-party card payment ecosystem, including interchange and other fees that are exchanged between various participants, is intrinsic to its working well and enables benefits, such as reliability, responsiveness, innovation and protections to customers and retailers.

PROCEDURAL COMMENTS

- For both reviews, the PSR should consider carefully the scope of the review and definitions around the relevant market, given the complex and dynamic nature of the sector.
- The PSR should also explain its rationale for the proposed time-period that will be considered in both reviews (i.e. from 2014 to the present day). The experience in the recent Card Acquiring Market Review (CAMR) has been that the amount of data provided over the five-year period was not well considered and quickly became obsolete given the rapid developments in the market. It does not seem proportionate to take an even longer period into account for these market reviews.
- We would also urge the PSR to undertake its economic and structural analysis with due regard to the differences between a retail payment ecosystem and, for instance, utility markets. The payments market has delivered positive outcomes for end users, including security, resilience, and innovation. The PSR should take account of these outcomes under its service user and innovation objectives, alongside its competition objective.
- As with the CAMR, we suggest the PSR should also undertake merchant surveys and market testing to help build a sufficient evidence base for these reviews.

Worldline

To Whom it May Concern

Submission to the consultation on the market review of card scheme and processing fees.

As Worldline UK and Ireland's CEO, I am writing to respond to the Payment Systems Regulator's consultation on the market review of card scheme and processing fees.

As you may know, Worldline's the fourth largest global payments company, operating in over 50 countries with annual revenue of over €5.5bn delivered with 20,000 people covering all aspects of payments and digital services. This includes hundreds of UK employees, based across London, Darlington, Chester, Beeston (Nottinghamshire) and Guildford.

In the context of Figure 1 within the Payment Systems Regulator's consultation, we provide services to organisations that range from multinationals through to SMEs that encompass the whole of the central structure – payment systems operation, card issuing, and card acquiring. In the UK, Worldline's Ingenico payment terminals are used day in, day out to make an enormous volume of transactions possible for McDonald's, while for Whitbread, we provide an account card scheme that makes business travel easier across its Premier Inn hotels and restaurants.

As a UK business, our biggest market is public transport: which the government seeks as a tool for levelling up and decarbonisation. For as long as the UK payments market is so stacked in opposition to disruptive and fair technology, that is hampered.

An imbalanced market

As this consultation rightly highlights, the overall UK market for this type of scheme and its associated fees is disproportionately held by the *de facto* cartel of Visa and Mastercard. Previously, Worldline has detailed for example the most common fees that are applied by Visa and Mastercard to transactions taking place within the EEA¹. While this duopoly is relatively well understood, customers and businesses are largely 'locked in' because of a system that reinforces itself.

Customer data is not easily portable to competing services, so it is virtually impossible to incentivise customers to switch, so retailers must offer Visa and Mastercard, and cannot profitably invest in alternatives. The barriers to innovation and market entry become impossible to beat.

This impact of this dynamic and its fee structure for Britain's businesses and consumers is *levelling down* by blocking market disruption and better technology meaning higher end costs that limit aspiration and long-term growth while hiking the cost of living; which is never acceptable, but much less so during times of soaring inflation and pressure on household incomes and debit.

The most tangible and practical example is the recent dispute between Visa and Amazon in which you will be well-versed. Amazon, forecast to become the UK's largest retailer by 2025, responded to an increase in transaction fees by Visa by proposing to end the ability for its customers to using Visa issued cards. While this has now been settled between the two companies, the terms of the deal agreed were not disclosed, although industry commentators expected that Amazon would seek to reduce those fees. Faced with high fees – for example, representing 1.15% of each Visa card transaction – this was a rational approach for Amazon to take.

¹ <https://www.bambora.com/articles/the-transaction-economics-of-scheme-fees/>

However, other UK-based businesses are still faced with higher fees, as they are less able to enter into a dispute that could cut off a large number of their customer base.

To provide two case studies, this has tangible impacts for the UK's businesses both large and small.

Example 1 – Large high street retailers

The UK's largest high street retailers already face a highly challenging commercial environment in which to compete with the rise of e-commerce, including rents and business rates applied to their larger number of physical locations.

With [REDACTED] of their customers being issued cards by banks using either Visa or Mastercard, and with their businesses dependent on large volumes of sales, the increases in transaction fees imposed by both have directly impacted on their ability to compete with e-commerce. This impacts on the ability of those high street businesses to deliver benefit to the UK, whether it is keeping their physical stores open, supporting the growth of their businesses, or returning value to UK-based investors.

While those businesses may have the scale to invest in new technologies, their customers are effectively locked into Visa and Mastercard as a preferred solution.

Example 2 – Retail SMEs

The UK's SMEs account for around three fifths of employment and around half of private sector turnover, with retail SMEs accounting for a significant proportion of this.² For those businesses, a rise in card transaction fees represents a significant encroachment on the cost of doing business, which translates to either reduced sales or higher costs for consumers, limiting the growth of companies that may aspire to become large employers and household names.

Improving what is possible

Whether large or small, the impact on the UK's businesses and their ability to offer goods and services at more competitive prices to the UK's consumers is harmed by the cosy dominance Visa and Mastercard.

To combat this, Worldline would propose that the UK actively seeks to harness modern payments technology, with a digital-first approach to Open Banking that leverages the power of modern payment technologies and open data, to liberalise the payments market and introduce greater competition, and improve the scope for innovation and disruption.

The European Payments Initiative, Europe's own approach to Open Banking, offers an indicative route forward, offering a means to simplify the complex landscape of payments, and provide richer and more accessible data. Offering future-focused alternatives to the existing payment 'schemes' unlocks multiple society-level benefits and can help to transform parts of our economy and particular regions:

- i. It means the 'un-banked', over 1.3m people³ in the UK, can access immediately settled payments to businesses and individuals, using modern secure technology that can be accessed via their smartphone. You're more likely to have a smartphone than a bank account; Deloitte

²

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923565/2020_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf

³ <https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/1642/164205.htm>

estimate >90% of people use smartphones in the UK, and this relationship with technology will only grow⁴. Alternative payment methods will allow the un-banked to enjoy the ability to access goods, services and society, that everyone else takes for granted.

- ii. It can drive competition by reducing the cost of making and receiving payments⁵. Opening and modernising payments will reduce the dependency on large, entrenched firms. We have the capability to make sure UK consumers benefit from that and to lead the payment and banking sectors in doing so.
- iii. Alternative payment technology including the EPI offer the opportunity to reduce the cost of selling cross-border, including with the EU, providing a simpler, cheaper payment method than existing schemes.
- iv. The richness of transaction data can be at 'basket level' and give regulators and government insight that was previously impossible about regulatory compliance and consumer behaviour.

Post-Brexit, the UK must find new ways to lead markets and to do this we would propose an independent, forward-thinking approach to Open Banking. While the European Payments Initiative is a good test bed for Open Banking, the potential it seeks to highlight is, as yet, not fully realised; with significant 'capture' of consumer data still within the system, and a lack of 'interchange' between different payment systems.

By fully liberalising our banking data and implementing open technology standards, the barriers to switching can be lowered, and both businesses and customers can be properly incentivised to opt for disruptive solutions that lower costs and improve the transaction experience.

I would not wish to disguise Worldline's obvious commercial interest in this market. But the reforms proposed have the potential to ensure the UK's businesses and customers can rationally choose the best card scheme and payments system for their needs, and at last compete on a level playing field.

We look forward to the outcome of the consultation.

Yours faithfully



CEO, UK&I

Worldline

⁴ <https://www2.deloitte.com/uk/en/pages/technology-media-and-telecommunications/articles/digital-consumer-trends.html>

⁵ <https://www.bambora.com/articles/the-transaction-economics-of-scheme-fees/>

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

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