Payment Systems Regulator

Market review into the supply of card-acquiring services: Final report

Annex 1

Industry background

November 2021

MR18/1.8 Annex 1

Contents

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

Introduction

1.1 This annex provides background information on the industry relevant to our assessment. It describes:

- the different types of card transactions
- the card payment systems operating in the UK
- the products that merchants buy to accept card payments
- the characteristics of merchants and how they buy card-acquiring services
- the main acquirers and payment facilitators serving merchants
- the third parties that help merchants accept card payments
- the pricing of card-acquiring services and other products that acquirers, payment facilitators and independent sales organisations (ISOs) offer
- the regulatory framework, scheme rules and industry standards that apply to acquirers and payment facilitators, focusing on those requirements that are most relevant to our assessment
- the alternatives to Mastercard and Visa cards for merchants

1.2 This is an updated version of MR18/1.7 Annex 1, which was published in September 2020 alongside the interim report. Where possible, information has been updated to reflect changes that have occurred since the interim report was published. We indicate where information has been updated.

Types of card transactions

1.3 Card transactions can be categorised according to their characteristics including:

- the card type
- the card payment system
- the location (of the parties involved in the transaction)
- the channel
- the way the transaction is authenticated (secure or non-secure)

1.4 Below we describe these different characteristics.

Card type

1.5 There are three main card types: credit, debit and prepaid. Cards can also be further categorised according to whether they are consumer or commercial cards.

Credit card

1.6 When a consumer or business uses a credit card to buy goods or services, they borrow money (up to a specific amount) and pay it back later. In the UK, 68% of adults have a credit card.[1]

1.7 For the purposes of our market review, we use the definition of a credit card set out in the Interchange Fee Regulation (IFR), according to which, in a credit card transaction, the amount of the transaction is debited from the customer's payment account in full or in part at a pre-agreed specific calendar month date to the payer, in line with a prearranged credit facility, with or without interest.[2]

Debit card

1.8 When a debit card is used to buy goods or services, the money is earmarked on the customer's payment account immediately. Debit cards are the most used payment card in the UK and 98% of the UK population holds a debit card.[3]

1 UK Finance, *UK Payment Markets 2020* (2020), page 6.
2 Article 2(5) and Article 2(34) IFR.
3 UK Finance, *UK Payment Markets 2020* (2020), page 6.

1.9 For the purposes of our market review, we use the IFR definition of a debit card which excludes prepaid cards.[4]

Prepaid card

1.10 A prepaid card works in a similar way to a debit card except that the money is taken from funds loaded onto the card in advance.

1.11 For the purposes of our market review, we use the IFR definition of a prepaid card.[5]

Consumer and commercial cards

1.12 For the purposes of our market review, we use definitions set out in the IFR:

- A consumer card means any card-based payment instrument issued to a consumer, which is defined in the IFR as a natural person who, in payment service contracts covered by the regulation, is acting for purposes other than the trade, business or profession of that person.[6]
- A commercial card is defined in the IFR as any card-based payment instrument issued to undertakings or public sector entities or self-employed natural persons which is limited in use for business expenses where the payments made with such cards are charged directly to the account of the undertaking or public sector entity or self-employed natural person.[7]

Card payment system

1.13 Card transactions can be categorised according to the card payment system involved. There are six card payment systems operating in the UK: American Express, Diners Club International (DCI), JCB International (JCB), Mastercard, UnionPay International (UPI) and Visa. We describe these card payments systems in paragraphs 1.23 to 1.63.

Location

1.14 Card transactions can be categorised according to the location of the parties involved. Operators of card payment systems categorise transactions according to the location of the issuer relative to the merchant outlet. An issuer is a bank or organisation licensed by the operator to provide cards to cardholders (see paragraph 1.26). A merchant is an

4 Article 2(33) IFR.
5 IFR Article 2(35).
6 IFR Article 2 (3).
7 IFR Article 2 (6).

organisation that accepts card payments and an outlet is the location at which a card transaction is completed.[8]

1.15 In the interim report we stated that, for Mastercard, there are three categories of card transaction:

- **Domestic transaction.** A card transaction where the outlet and issuer are located in the same country.
- **Intra-regional transaction**. A card transaction where the outlet is located in a different country than the issuer, but in the same Mastercard region.
- **Inter-regional transaction**. A card transaction where the outlet is located in a different Mastercard region than the issuer.

1.16 We also noted at the interim report stage that Visa uses three categories of card transaction:

- **Domestic transaction.** A card transaction in which the country where the merchant outlet is located and the card is issued are the same.
- **Intra-European transaction.** A card transaction in which the country where the merchant outlet is located is different to the country in which the card is issued and both countries are located in the Visa Europe region.
- **International transaction.** A card transaction in which the country where the merchant outlet is located is in the Visa Europe region and the country in which the card is issued is in a different Visa region.

1.17 The IFR regulates transactions where the issuer and acquirer are located in the European Economic Area (EEA).[9] It categorises transactions according to the location of the issuer, acquirer and the point-of-sale [10] (that is, outlet). Under the IFR:

- a '**cross-border payment transaction**' means a card-based payment transaction where the issuer and the acquirer are located in different Member States or where the card-based payment instrument is issued by an issuer located in a Member State different from that of the point of sale[11]
- a '**domestic payment transaction**' means any card-based payment transaction which is not a cross-border payment transaction – that is, where the issuer, acquirer and point of sale are located in the same Member State[12]

8 The location of an outlet could be, for example, the location of a shop. For an e-commerce transaction, it is generally the principal place of business of the merchant.

9 IFR Article 1(1).

10 See Article 2(2) IFR.

11 IFR Article 2(8).

12 IFR Article 2(9).

1.18 Since the interim report was published in September 2020, a set of new rules now apply to the relationship between the UK and EU following the end of the Brexit transition period. Effects on the supply of card-acquiring services include the following:

1. The IFR has been retained in UK law and revised to focus on domestic payments (UK IFR).
2. Caps on interchange fees for payments to and from the EU are no longer covered by UK or EU legislation (IFR and UK IFR).
3. Payment services may no longer be passported between the EU and UK. Temporary permissions may have been given to EEA providers for continued access to the UK market. Some UK providers have also set up operations within the EU and EEA.

1.19 Card transactions can be categorised according to the channel as follows:

- a **card-present transaction** is a transaction where the cardholder is present at the outlet and presents the card (or smartphone/smartwatch)
- a **card-not-present transaction** is any transaction that is not a card-present transaction such as e-commerce transactions and mail order and telephone order (MOTO) transactions

Secure and non-secure transactions

1.20 Card transactions can be categorised as either secure or non-secure. The categorisation mainly depends on the way the cardholder authenticates themselves when making a payment. Secure transactions include:

- **Chip & PIN transactions.** The cardholder inserts the chip on their card into a point-of-sale (POS) terminal or card reader (see paragraph 1.64) and enters the PIN.
- **3-D Secure transactions**. 3-D Secure is a messaging protocol developed by EMVCo[13] to enable consumers to authenticate themselves with their card issuer when making card-not-present transactions and protect merchants from exposure to fraud.

1.21 Contactless transactions, where the cardholder taps their contactless device (such as their card or mobile phone) over the POS terminal or card reader, are also generally considered secure. Depending on the contactless device, spending limits may apply for the transaction to be considered secure.

1.22 The categorisation of secure and non-secure transactions will be affected by the implementation of the Strong Customer Authentication (SCA) requirements in the second Payment Services Directive (PSD2). We describe these rules in paragraphs 1.322 to 1.325.

13 EMVCo is a global payment standards body collectively owned by six operators of card payment systems.

Card payment systems operating in the UK

1.23 Card payment systems enable people to make payments using cards. In this section, we outline how card payment systems work.

1.24 The operator of a card payment system needs to recruit cardholders (individuals or businesses) and merchants. It may choose to carry out these tasks itself or delegate them to other parties (called acquirers and issuers). This choice of approach gives rise to two types of card payment systems: 'four-party' systems and 'three-party' systems.

Four-party card payment systems

1.25 There are five four-party card payment systems operating in the UK: DCI, JCB, Mastercard, UPI and Visa. Together, transactions involving Mastercard and Visa cards accounted for around 98% of all card payments at UK outlets in 2018, both by volume and value.[14]

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

- **Merchants** – organisations that accept payment by card.
- **Operators** of card payment systems – organisations that license issuers and acquirers to recruit cardholders and merchants, respectively.[15] They manage the 'scheme rules' that govern how card payments are made and set the basis on which issuers, acquirers, merchants, cardholders and other parties participate in the card payment system.[16] Operators of card payment systems may also provide processing services that manage the transactions between issuers and acquirers.[17]
- **Acquirers** – banks or other organisations licensed by operators of card payment systems to recruit merchants to accept card payments. Acquirers provide card-acquiring services to merchants and play a key role in enabling card payments (as described in paragraphs 1.39 to 1.49).

14 PSR analysis of data submitted by six operators of card payment systems.

15 In a four-party card payment system, the operator of the card payment system has no direct contractual relationship with cardholders or merchants.

16 Paragraphs 1.333 to 1.338 provide more information on scheme rules and Annex 5 considers scheme rules relating to collateral requirements.

17 Processing services provided by the operator of the card payment system can be procured by acquirers and issuers from other parties. We are not aware of any acquirers doing this in the UK.

- **Issuers** are banks or other organisations licensed by operators of card payment systems to provide cards to cardholders. The issuer pays to the acquirer the money the merchant is owed for the transaction (less interchange fees) and debits the cardholder's account.

1.27 A card transaction may involve additional parties. An important example, for the purposes of our market review, is where a merchant buys card-acquiring services from a payment facilitator rather than directly from an acquirer.

1.28 In the remainder of this section, we explain:

- how a card payment is made
- the main fees flowing between parties
- the role of acquirers
- the role of payment facilitators

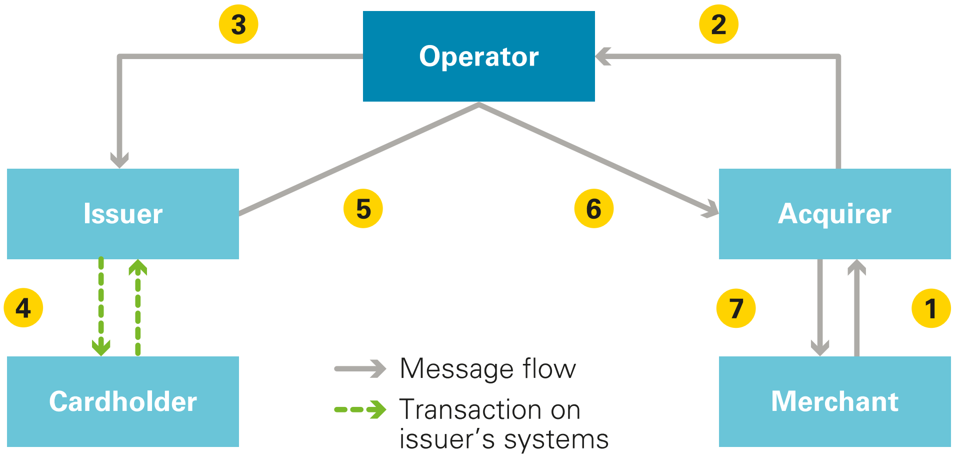
How a card payment is made

1.29 In this section, we provide an overview of how a card payment is made in a four-party card payment system when there are five parties involved: a cardholder, a merchant, an issuer, an acquirer and the operator of the card payment system.

1.30 Generally, when a card is presented to pay for goods or services in a shop, the merchant's POS terminal captures the card details and sends them to its acquirer for authorisation. (In some cases, the transaction does not need to be authorised.) The acquirer then forwards the authorisation request to the cardholder's bank (the issuer) via the operator of the card payment system. The issuer decides whether to approve or decline the transaction including by checking that the cardholder has enough money in their account to make the payment and that the card has not been reported lost or stolen. If the transaction is authorised and once the merchant has received the issuer's response via the operator of the card payment system and the acquirer, the sale can proceed. Figure 1 provides a simplified representation of the message flows for an authorisation request.

1.31 In some circumstances, the cardholder must authenticate themselves. For example, in a shop the cardholder might do this by inserting his or her card into a POS terminal and entering the PIN. The purpose of authentication is to ensure that the cardholder is the legitimate user of the card and has given their consent for the transfer of funds.

Figure 1: Authorisation request in a four-party card payment system



1 When the cardholder presents a card to pay for goods or services, the merchant sends an authorisation request to the acquirer.
2 Acquirer routes authorisation request to the operator of the card payment system.
3 The operator of the card payment system routes authorisation request to the issuer.
4 Issuer checks card account status (e.g. available balance, whether card is blocked, whether transaction is fraudulent).
5,6,7 Authorisation response is routed back to the merchant.

This diagram provides a simplified representation of an authorisation request in a four-party card payment system. In certain environments, authorisation can be carried out 'offline', meaning that the authorisation is performed at the POS terminal between the card and the POS terminal.

1.32 Periodically throughout the day, the acquirer batches up card transactions received from its merchants and submits these to the operator of the card payment system. Later, the acquirer receives the funds from the issuer for the card payment (less interchange fees and scheme fees – see paragraph 1.36) through processes called clearing and settlement that are facilitated by the operator of the card payment system.[18] The acquirer also credits the merchant's account and the issuer debits the cardholder's account. Figure 2 provides a simplified representation of clearing and settlement in a four-party card payment system. It also shows the flow of funds between the acquirer and the merchant, and the issuer and the cardholder.

18 Clearing is the exchanging of data on card transactions between issuers and acquirers to establish final positions for settlement. Settlement is the process for discharging obligations, claims and liabilities that arise between issuers and acquirers.

1.33 Generally, merchants receive the funds they are owed one, two or several days after the transaction takes place depending on various factors. A merchant may be settled net or gross:

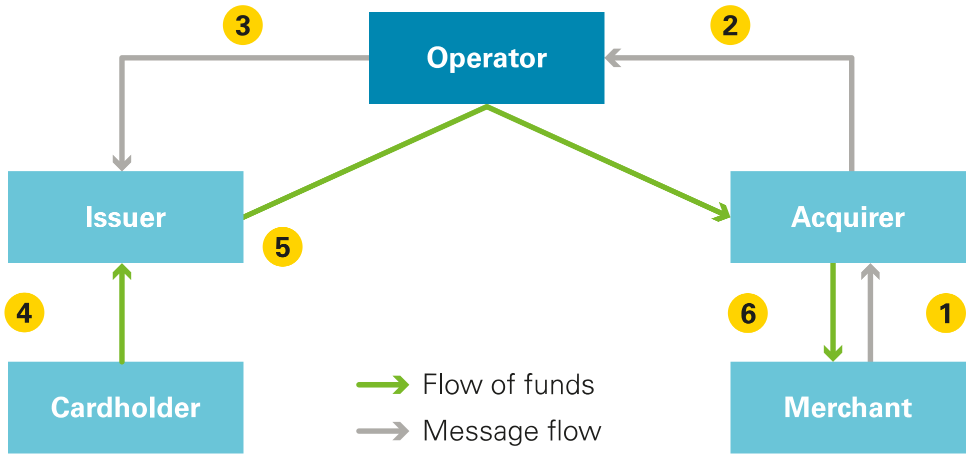
- with net settlement, the acquirer transfers the merchant the value of the purchase transactions it accepted less the merchant service charge (MSC), which is the total amount merchants pay to acquirers for card-acquiring services (see paragraph 1.36)
- with gross settlement, the acquirer transfers the merchant the full value of the purchase transactions it accepted and bills the merchant separately for the MSC

1.34 The process described in paragraphs 1.30 to 1.33 is the same for an e-commerce transaction except that software called a payment gateway is used to capture and transmit the card details to the acquirer.

1.35 An 'on-us transaction' is one where the acquirer and issuer are the same entity or from the same corporate group, and the transaction is not cleared and settled through the card payment system. Two large issuers in the UK have acquiring businesses: Barclays PLC (see paragraph 1.109) and Lloyds Bank plc (which part owns Lloyds Bank Cardnet and is a wholly owned subsidiary of Lloyds Banking Group – see paragraph 1.115). However, on-us transactions are now rare in the UK: Barclays PLC does not have on-us transactions anymore following the implementation of structural reform[19] and on-us transactions account for a very low proportion (less than [✂]%) of Lloyds Bank Cardnet's transactions at UK outlets.

19 Certain UK banks were required to separate retail banking services from the rest of their businesses by 1 January 2019.

Figure 2: Clearing and settlement in a four-party card payment system



1 Merchant submits a batch of card transactions to the acquirer.
2 Acquirer batches together all card transactions received from its merchants and submits them to the operator of the card payment system.
3 The operator of the card payment system routes card transactions to the appropriate issuer.
4 Issuer debits cardholder accounts.
5 Issuer pays acquirer settlement amount via the operator of the card payment system: total value of transactions, less any returned/refunded transactions, less interchange fee.
6 Acquirer pays merchant.

Diagram provides a simplified representation of clearing and settlement in a four-party card payment system.

Fees flowing between parties in a four-party card payment system

1.36 Figure 3 below shows the main flow of fees between parties in a four-party card payment system, including:

- **interchange fees**, which acquirers pay to issuers each time a card is used to buy goods or services
- **scheme fees**, which acquirers and issuers pay to the operators of card payment systems for their services[20]
- **MSC,** which is the total amount merchants pay to acquirers for card-acquiring services
- **cardholder fees,** which cardholders may pay to the issuers

1.37 The MSC comprises interchange fees, scheme fees and acquirer net revenue. Acquirer net revenue includes the costs the acquirer incurs (other than interchange fees and scheme fees) to provide card-acquiring services, plus the acquirer's margin.

20 We use the term 'scheme fees' to refer to all fees acquirers pay to operators of card payment systems including fees paid for scheme services and fees paid for the processing services they provide.

1.38 Interchange fees and some scheme fees[21] vary depending on the characteristics of a transaction including:

- the card type (for example, whether a credit or debit card was used)
- the card payment system (such as Mastercard or Visa)
- the location (of the parties involved in the transaction)
- the channel (for example, e-commerce or face-to-face)
- the way the transaction is authenticated (secure or non-secure)

Figure 3: Main fees flowing between parties in a four-party card payment system

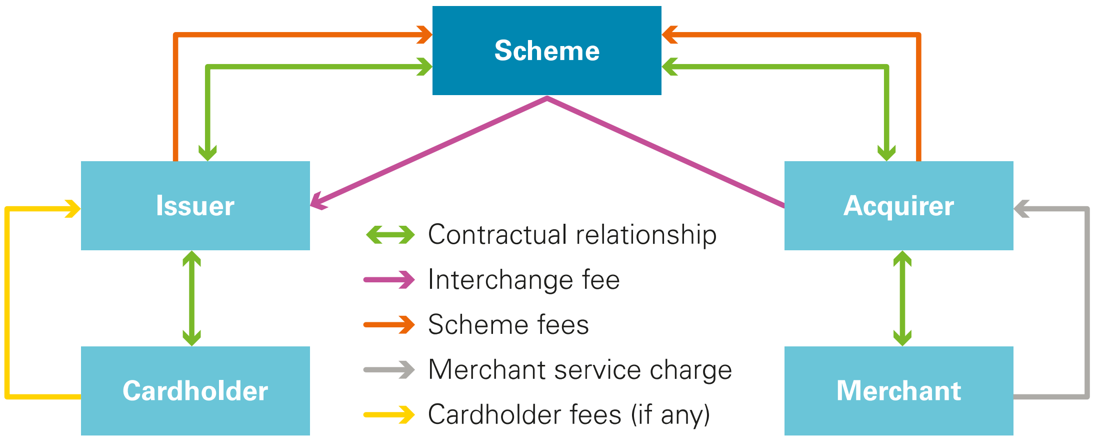


Diagram provides a simplified representation of a four-party card payment system.

Role of acquirers

1.39 Acquirers provide card-acquiring services to merchants. For the purposes of our market review, we define card-acquiring services as services to accept and process card payments on behalf of a merchant, resulting in a transfer of funds to the merchant. This comprises the following activities:

- onboarding the merchant to accept card transactions under one or more card payment systems
- underwriting the merchant – that is, taking the credit risk of merchant failure in respect of card payments
- supporting the merchant with the authentication, authorisation, clearing and settlement of card payments through the card payment system (see paragraphs 1.29 to 1.32)

21 Some scheme fees are not directly attributable to transactions – see Annex 4.

- settling with the merchant – that is, transferring it the funds for the card payments it accepts less any applicable fees (see paragraph 1.33)
- facilitating the administration of chargebacks and refunds for the merchant
- monitoring the merchant's compliance with scheme rules including the Payment Card Industry Data Security Standard (PCI DSS – see paragraph 1.79) and other standards
- terminating the relationship with the merchant for card-acquiring services

1.40 Acquirers may also offer other products and services that help merchants accept card payments such as POS terminals (see paragraphs 1.64 and 1.65).

1.41 In onboarding merchants, the acquirer assumes responsibility for the risks associated with granting them access to the card payment system. These risks include the credit risk that comes from being liable under scheme rules for disputes between cardholders and merchants. There is a range of circumstances in which a cardholder might contact their issuer to dispute a card payment. For example, this might happen where goods and services are not delivered or if a card payment appears fraudulent. If the issuer considers the cardholder has the right to dispute a card transaction under scheme rules, it will raise a chargeback.[22]

1.42 The chargeback process gives rise to a credit risk for acquirers because an acquirer may not be able to recover the amount it must pay to the issuer if a chargeback is upheld (for example, if the merchant becomes insolvent or acts fraudulently).

1.43 Credit risk also arises in other contexts because an acquirer may not be able to recover from merchants that become insolvent or were acting fraudulently:

- the amount it has paid to issuers for refunds initiated by the merchant
- the amount it has paid in interchange fees and scheme fees for transactions it acquires for a merchant that is gross settled[23]
- the amount of any fines issued by the operator of a card payment system for a merchant's failure to comply with scheme rules

22 A chargeback is different from a refund. The latter is a transaction initiated by the merchant as part of the normal course of business. A chargeback is initiated by the issuer where the cardholder has the right to dispute a transaction.

23 Acquirers are net settled (see paragraph 1.32) but may gross settle to the merchant (see paragraph 1.33). Merchants that are gross settled subsequently receive an invoice that recovers the interchange fees and scheme fees the acquirer paid plus its other costs and margin. The merchant may be unable or unwilling to pay the invoice if it has gone insolvent or was acting fraudulently.

1.44 Certain types of merchants carry a higher credit risk, such as deferred delivery merchants (those who typically accept payment for goods and services some time before they are provided, which includes furniture retailers and airlines) or merchants that operate in sectors that are more susceptible to fraud. The level of merchant credit risk will also vary from business to business depending on a range of factors including their financial position and trading history.

1.45 As well as credit risk, acquirers carry other risks[24] that come from providing card-acquiring services to specific merchants or sectors including:

- **Regulatory risk.** Acquirers must comply with statutory and regulatory obligations including anti-money laundering and terrorist financing requirements. Consequences for failure to comply include criminal or civil proceedings being brought against the acquirer, as well as regulatory and disciplinary action (and reputational damage). Certain types of merchants are more susceptible to criminal activities and hence providing them with card-acquiring services carries greater regulatory risk.

- **Card payment system risk.** Being reliant on access to card payment systems, acquirers face risks arising from their relationships with the operators of these systems. For failure to comply with scheme rules, operators of card payment systems may apply financial penalties (which gives rise to a credit risk in certain circumstances – see paragraph 1.43) or limit, suspend or terminate an acquirer's participation in the card payment system. Operators of card payment systems may also place additional obligations on acquirers that serve merchants that represent a higher risk to their brand or the system.

- **Reputational risk.** Certain types of merchants may give rise to higher reputational risk for acquirers, for example because they are more susceptible to criminal activities or because of ethical or moral sensitivities around the goods or services they sell.

1.46 Acquirers carry out due diligence on merchants as part of the onboarding process and on an ongoing basis to help them manage the credit risk and other risks they carry. For example, acquirers carry out know your customer and anti-money laundering checks. These checks help maintain the integrity and security of the card payment system and prevent financial crime. Acquirers also help merchants to reduce the likelihood of chargebacks and fraud.

1.47 As part of the onboarding process, acquirers will use, amongst other things, information from credit reference agencies, public information, merchant trading history, bank statements and other sources to assess new customers. Merchants deemed of greater risk may still be onboarded but only after enhanced due diligence or agreeing to measures that reduce the acquirer's risk exposure (such as delayed settlement of funds for a merchant that carries a high credit risk). Acquirers may also decide – as a matter of policy – not to serve certain types of merchants.

24 Acquirers also face risks that are generic in that they apply to many other types of businesses and include process risk, people risk, information security risk and political risk, which we do not describe here.

1.48 Once onboarded, acquirers use combinations of machine learning, artificial intelligence and human review to manage the risks they carry. For example, acquirers monitor indicators that could suggest a merchant is at risk of insolvency or acting fraudulently including the number of chargebacks raised and refunds issued, and material changes in average transaction value.

1.49 Under scheme rules, acquirers may choose to outsource some activities to other parties. Wherever an acquirer outsources its activities, under scheme rules it retains responsibility and is liable for making sure that those it outsources to perform the activities in accordance with these rules.

Role of payment facilitators

1.50 A card payment may involve additional parties to the cardholder, merchant, issuer, acquirer and the operator of the card payment system. An important example, for the purposes of this report, is where a merchant buys card-acquiring services from a payment facilitator rather than directly from an acquirer.

1.51 As shown in Figure 4, payment facilitators are intermediaries between acquirers and merchants. Under scheme rules, acquirers can permit payment facilitators to recruit merchants on their behalf and contract with these merchants for card-acquiring services. Typically, when a merchant contracts with a payment facilitator for card-acquiring services, there is no direct contractual relationship between the merchant and the acquirer. There is also no direct contractual relationship between the payment facilitator and the operator of the card payment system.

Figure 4: Payment facilitators in a four-party card payment system

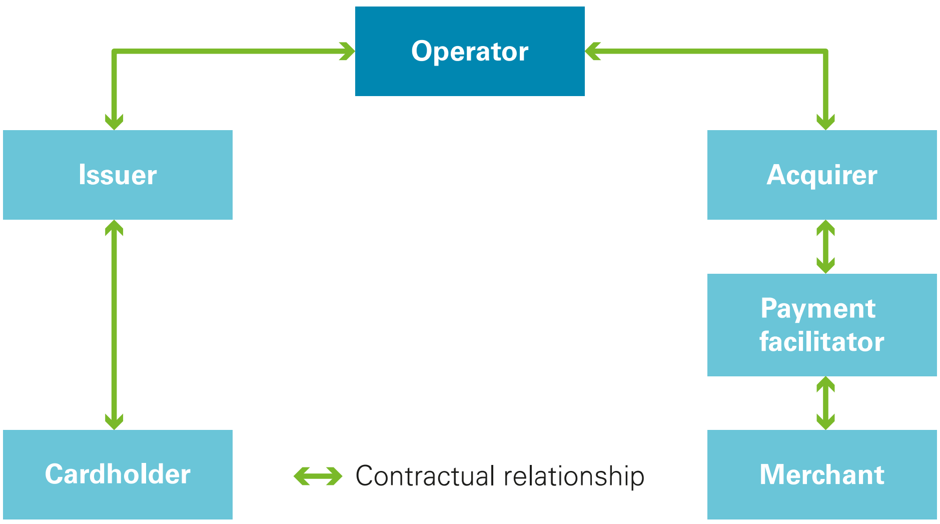


Diagram provides a simplified representation of a four-party card payment system.

1.52 The payment facilitator provides card-acquiring services to merchants, which include onboarding merchants to accept card transactions and transferring them the money they are owed.

1.53 Payment facilitators are exposed to similar risks as acquirers including credit risk, regulatory risk and reputational risk from providing card-acquiring services to merchants. A payment facilitator is exposed to credit risk because, in the event a chargeback relating to one of its merchants is upheld, the acquirer will seek to recover the amount from the payment facilitator, which may not be able to do the same from the merchant if the merchant has become insolvent or was acting fraudulently.

1.54 The acquirer continues to play an important role in enabling card payments involving merchants recruited by payment facilitators. Where the merchant contracts with a payment facilitator, a card transaction works in a similar way to when a merchant contracts with an acquirer except that:

- The authorisation request is sent from the merchant to the payment facilitator, which forwards this to the acquirer. The acquirer then forwards the request to the issuer via the operator of the card payment system. When the acquirer receives the issuer's response, it forwards this to the payment facilitator, which forwards it to the merchant.
- The payment facilitator aggregates card transactions for its merchants and submits these to the acquirer, which submits them to the operator of the card payment system for clearing and settlement.
- When the acquirer receives the funds from the issuer for the card payment through the clearing and settlement process, it transfers the money to the payment facilitator which settles with the merchant.

1.55 The acquirer is also responsible for ensuring that the payment facilitator and the merchants it recruits comply with the scheme rules and remains ultimately liable for any chargebacks involving the payment facilitator's merchants.

1.56 Acquirers impose restrictions on the types and size of merchants that payment facilitators can contract with for card-acquiring services. These reflect laws and scheme rules that apply to acquirers (including scheme rules governing their interaction with payment facilitators), as well as acquirers' own risk appetites. For example, acquirers may place restrictions on payment facilitators serving merchants they consider carry higher risk.

1.57 Scheme rules require that if the merchant's annual card turnover exceeds a specified amount, the acquirer must also contract with the merchant. This amount is $1 million for Mastercard and Visa. We have been told that the limits are imposed to mitigate the risk of merchant default when, for example, a merchant is unable to deliver the goods or services purchased and is unable to provide a refund due to insolvency. We consider this requirement further in Annex 5.

Three-party card payment systems

1.58 In four-party card payment systems like Mastercard and Visa, the operator of the system licenses third parties to issue cards and recruit merchants. In a three-party card payment system, the operator generally performs the issuing and acquiring functions itself.[25] American Express is the only three-party card payment system operating in the UK and is the only acquirer of transactions for UK merchants involving its cards.

1.59 Generally, when an American Express card is presented to pay for goods or services in shop, the merchant's POS terminal captures the card details and transmits them to American Express for authorisation. American Express (in its capacity as an issuer) decides whether to approve or decline the transaction. (In some cases, the transaction does not need to be authorised.) American Express (in its capacity as an acquirer) then sends the response to the merchant and – if the transaction is authorised – the sale can proceed. The process is the same for an e-commerce transaction except that software called a payment gateway is used to capture and transmit the card details to American Express.

1.60 Periodically throughout the day, the merchant submits card transaction data to American Express. American Express (in its capacity as an acquirer) subsequently transfers to the merchant the money it is owed (less fees for its services, which American Express calls the 'discount rate').

1.61 Figure 5 shows certain fees flowing between the cardholder, the merchant and American Express. American Express (in its capacity as an acquirer) agrees with the merchant the discount rate. Importantly, except in certain circumstances[26], there are no interchange fees or scheme fees.

Figure 5: Some of the fees flowing between parties in the American Express card payment system

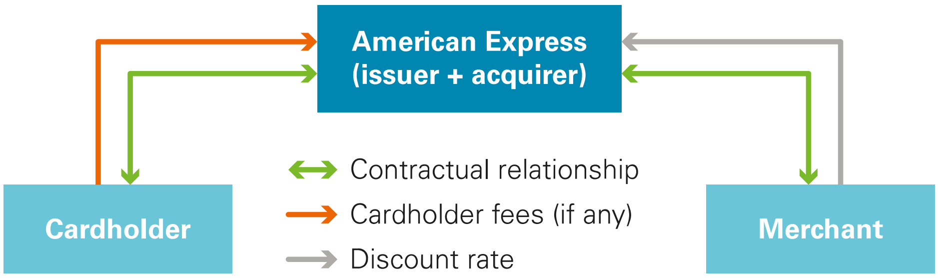


Diagram shows some of the fees flowing between parties in the American Express card payment system when it does not license other parties to act as issuers or acquirers.

25 Prior to the introduction of the IFR and PSD2, American Express licenced third parties to act as an issuer or acquirer in the EEA, while continuing to issue cards and acquire payments itself. American Express has discontinued these arrangements in Europe.

26 Namely where the operator of a three-party card payment system licenses other payment service providers for the issuance of card-based payment instruments or the acquiring of card-based payment transactions, or both, or issues card-based payment instruments with a co-branding partner or through an agent.

1.62 Acquirers for four-party card payment systems may assist merchants in accepting American Express cards by:

- **Referring merchants to American Express.** The acquirer refers the merchant to American Express and collects (and may verify) information necessary for due diligence. The contract for card-acquiring services is between American Express and the merchant.
- **Providing the card acceptance products that the merchant needs to accept American Express cards.** American Express (in its capacity as an acquirer) does not offer card acceptance products to merchants. Merchants will need to obtain these products from another party, for example from their acquirer for Mastercard and Visa cards. Acquirers licensed by Mastercard and Visa can configure the POS terminals and payment gateways they provide to capture American Express card details at the POS and transmit these to American Express for authorisation.
- **Batching up American Express card transaction data** and submitting this to American Express on the merchant's behalf.

1.63 American Express (in its capacity as an acquirer) acquires payment facilitators (also called 'master merchants') who, in turn, are allowed to enter separately into their own contracts with merchants (also called sponsored merchants) and aggregate card transactions. The payment facilitator contracts with American Express as a (master) merchant. There is no direct contract between American Express and the payment facilitators' merchants. Where the merchant contracts with a payment facilitator, a card transaction works in a similar way to when a merchant contracts with American Express (in its capacity as an acquirer) except that:

- the authorisation request is sent to the payment facilitator, which forwards this to American Express
- the payment facilitator aggregates American Express card transaction data for its merchants and submits this to American Express
- the payment facilitator receives the settlement funds from American Express and settles with its merchants in accordance with the contract it has with them

Products merchants buy to accept card payments

1.64 To accept card payments, merchants need the following:

- **Card-acquiring services**, which can be bought from acquirers or payment facilitators. Paragraph 1.39 lists in more detail the activities involved in providing card-acquiring services.
- **Hardware and software** to capture the card details at the POS and transmit these to the merchant's acquirer or payment facilitator. This includes card readers and POS terminals for card payments accepted face to face and payment gateways for e-commerce card payments. Card readers, POS terminals and payment gateways – which we refer to as card acceptance products – can be obtained from acquirers, payment facilitators or third parties and may or may not be integrated with the merchant's own systems.
- A **bank account** to receive the funds for card payments from the acquirer or payment facilitator. Where an acquirer is part of a banking group, the merchant can obtain card-acquiring services and a bank account from the same firm.

1.65 Merchants also buy from acquirers and payment facilitators other goods and services, which we refer to as **value-added services**.

1.66 This section describes card acceptance products and some of the value-added services merchants can buy from acquirers and payment facilitators.

Card acceptance products

Merchants selling face to face

1.67 Merchants that accept card payments face to face need hardware to capture the card details. There are two options: POS terminals and card readers. They differ because POS terminals are standalone devices while card readers must be connected to an app on a smartphone or tablet to work.

1.68 There are three main types of POS terminal. Countertop POS terminals are fixed to the sales desk while portable POS terminals can be carried around the premises by staff. Both connect to the provider of card-acquiring services by linking to the merchant's fixed telephone line or broadband. Mobile POS terminals have an in-built SIM card and connect to the merchant's provider of card-acquiring services via a mobile telephone network.

1.69 Card readers connect via Bluetooth or cable to an app on the merchant's smartphone or tablet. The app then connects to the provider of card-acquiring services using Wi-Fi or the device's mobile phone signal.

1.70 Acquirers and others are developing new ways of capturing card details for card payments made face to face. For example, Fiserv (see paragraph 1.124) announced in February 2020 that it was piloting a new product in Poland that enables the merchant to capture card details using a smartphone or tablet without the need for additional hardware.

Merchants selling online

1.71 Merchants that accept card payments via their own websites or mobile applications will need a payment gateway. In its most basic form, a payment gateway is software that captures the card details and translates them into a message that is sent to and understood by the acquirer's systems. A payment gateway can include a payments page, which is a webpage where the consumer enters their card details. Alternatively, a merchant may build its own payments page.

1.72 Merchants can also buy payment gateways for card payments accepted face to face. In simple terms, a payment gateway for card payments accepted face to face is software loaded on to a POS terminal that translates card details into a message that is sent to and understood by the acquirer's systems. Unless otherwise stated, where we refer to payment gateways we mean payment gateways that help merchants accept e-commerce payments.

Merchants selling by telephone or mail order

1.73 Merchants can key in the card details to their POS terminal or card reader to accept card payments over the phone or by mail order.

1.74 Alternatively, a merchant may buy a virtual terminal, which is like a payment gateway. The merchant logs in to an online account and enters the customer's card details, which it has received via phone or mail order, to initiate the transaction.

Integration of hardware and software

1.75 The hardware and software used to capture and transmit card details to the acquirer may be integrated to varying degrees with the merchant's systems.

1.76 For example, a merchant selling face to face may integrate a POS terminal with its Electronic Point of Sale (EPOS) system. An EPOS system is a combination of hardware and software that helps merchants selling face to face run their businesses by supporting, for example, inventory management, payroll and management information reporting. Payments functionality can be integrated with the EPOS system so that, for example, the value of the item being bought in a shop is automatically displayed on the POS terminal after being scanned or selected without the need for manual intervention.

1.77 If a merchant is selling online, some form of integration – for example by application programming interfaces (APIs)[27] – is required between the website and the payment gateway. Whether this is carried out by the merchant depends on how they are selling online.

Other products

1.78 Merchants may also buy other products from acquirers and payment facilitators, which may be offered through partnerships with third parties. In the report, we refer to these as 'value-added services'. These products include:

- services that help the merchant to comply with PCI DSS requirements
- services that help merchants detect and prevent fraudulent transactions
- dynamic currency conversion (DCC), which allows merchants to offer the cardholder the option to pay in their own currency at point of sale
- reporting and analytical tools that provide merchants with detailed information and analysis on the card payments they accept
- services that help merchants authenticate card payments in accordance with SCA requirements (see paragraphs 1.322 to 1.325)
- services that help merchants accept non-card digital payments
- business management services (such as EPOS systems)
- cash advances, whereby cash is advanced to the merchant based on expected card transactions in return for a portion of future sales

1.79 PCI DSS is a set of standards designed to protect the security of card payments and reduce fraud. The standards are maintained by a council consisting of certain operators of card payment systems, with input from other parties such as acquirers and merchants. Scheme rules require that acquirers ensure their merchants comply with PCI DSS requirements.

27 An API is a set of routines, protocols and tools that specify how software components interact.

1.80 An emerging trend in payments is the supply of omnichannel services. There is no single definition of omnichannel services, but broadly they can be defined as provision by a single firm of services integrating payments made via different channels (for example, e-commerce and face-to-face). Characteristics of omnichannel services may include:

- having a single contract with one provider (rather than having separate contracts for payments made via different channels with the same provider or with different providers)
- consolidated reporting to give a single view of all payments the merchant accepts
- consolidated billing and settlement – that is, the merchant receives one bill for all its transactions and all the money it is owed comes from a single source
- supporting the merchant in implementing a seamless customer experience across different sales channels (for example, by using tokenisation[28] to allow the customer to buy online with one click or purchase a product online and then return it at a shop)

28 In simple terms, tokenisation replaces the card details with a digital identifier known as a token.

Characteristics of merchants and how they buy card-acquiring services

1.81 Card use has been growing strongly in recent years in part due to increasing levels of card acceptance among businesses particularly smaller businesses.[29] Surveys we've seen suggest that the majority of UK businesses currently accept card payments.[30]

1.82 Our market review uses two broad segments within the supply of card-acquiring services to structure our analysis and present our findings:

- **Small and medium-sized merchants**, with annual card turnover up to £10 million.
- **Large merchants**, with annual card turnover above £10 million.

1.83 In this section, we describe the characteristics of merchants and how they buy card-acquiring services with reference to these segments (and some additional sub-segments within the two broad card turnover groups).

1.84 We draw on various sources including our survey of small and medium-sized merchants and responses we received to an information request we issued to large merchants (nearly all of whom were the largest merchants with an annual card turnover above £50 million).

Merchant characteristics

1.85 A small number of merchants account for most transactions. As shown in Table 1, the largest merchants with annual card turnover above £50 million made up less than 0.1% of the merchant population but were responsible for 76% of the value of card transactions in 2018. Almost all merchants have an annual card turnover below £10 million and in 2018 they accounted for around 17% of the value of card transactions. Over 90% of merchants accepted fewer than £380,000 worth of card transactions in 2018.

29 UK Finance, *UK Payment Markets 2020* (2020), Chart 1.1 and page 11.

30 A survey carried out by RFi Group for the UK Merchant Acquiring Council in 2019 found that 58% of UK businesses accepted payment by card, increasing to 63% as of H1 2020. A payments survey carried out by Savanta in 2018 found that 53% of UK businesses had received payment by card in the last six months. MarketVue Business Payments from Savanta, YE H2 2018 data, based on 5004 businesses with a turnover of £50,000-£25 million. Data weighted by region and turnover to be representative of businesses in G.B.

Table 1: Merchant segments

Merchant segment	Sub-segment (annual card turnover)	Proportion of merchants	Proportion of transactions (2018 volume)	Proportion of transactions (2018 value)
Small and medium-sized	Less than £380k	93.7%	8.1%	6.5%
	£380k – £1m	4.1%	3.3%	3.8%
	£1m – £10m	1.9%	5.3%	7.3%
Large	£10m – £50m	0.2%	4.8%	6.4%
	More than £50m	0.1%	78.6%	76.0%

Source: PSR analysis based on data provided by acquirers and payment facilitators on merchants served in April 2019 (or in one case, August 2019). Active merchants only. Figures may not sum to 100% due to rounding.

1.86 Large merchants with annual card turnover between £10 million and £50 million made up around 0.2% of merchants and were responsible for approximately 6% of the value of card transactions in 2018. Many of these merchants are clustered at the lower end of this card turnover range; approximately 35% have an annual card turnover between £10 million and £15 million and a further 20% have an annual card turnover between £15 million and £20 million.[31]

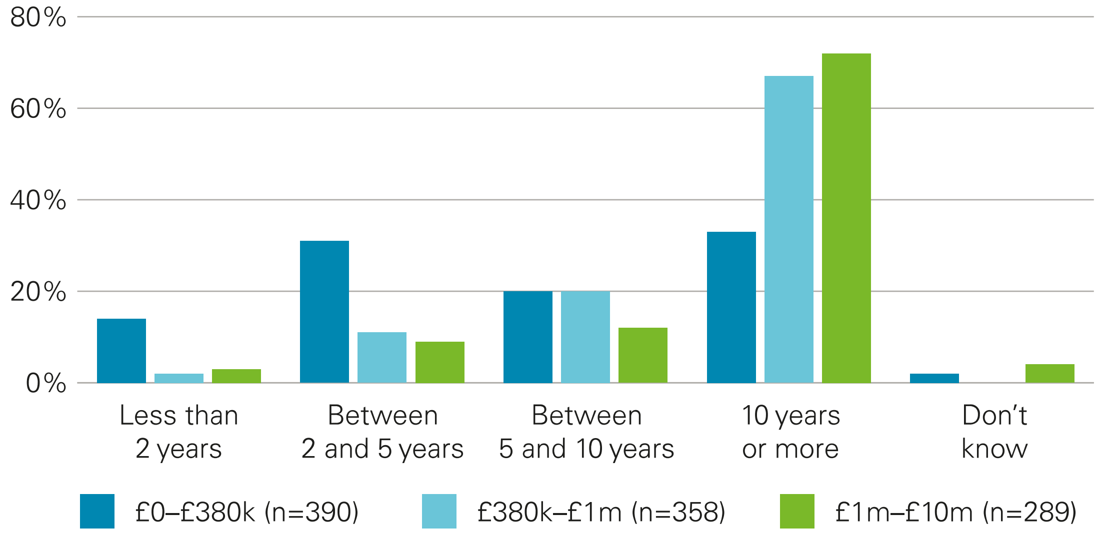
1.87 Approximately 55% of the small and medium-sized merchants that we surveyed had accepted card payments for more than five years and 13% have been doing so for less than two years.[32] As shown in Figure 6, the length of time that merchants have accepted card payments increased with card turnover, which is consistent with the information we have about large merchants. Most of the largest merchants that responded to our information request had been accepting card payments for at least ten years and nearly three quarters of large merchants have been with their acquirer or payment facilitator for over five years.[33]

31 PSR analysis of data provided by six acquirers and the largest payment facilitators.

32 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 57.

33 PSR analysis of data provided by acquirers and payment facilitators.

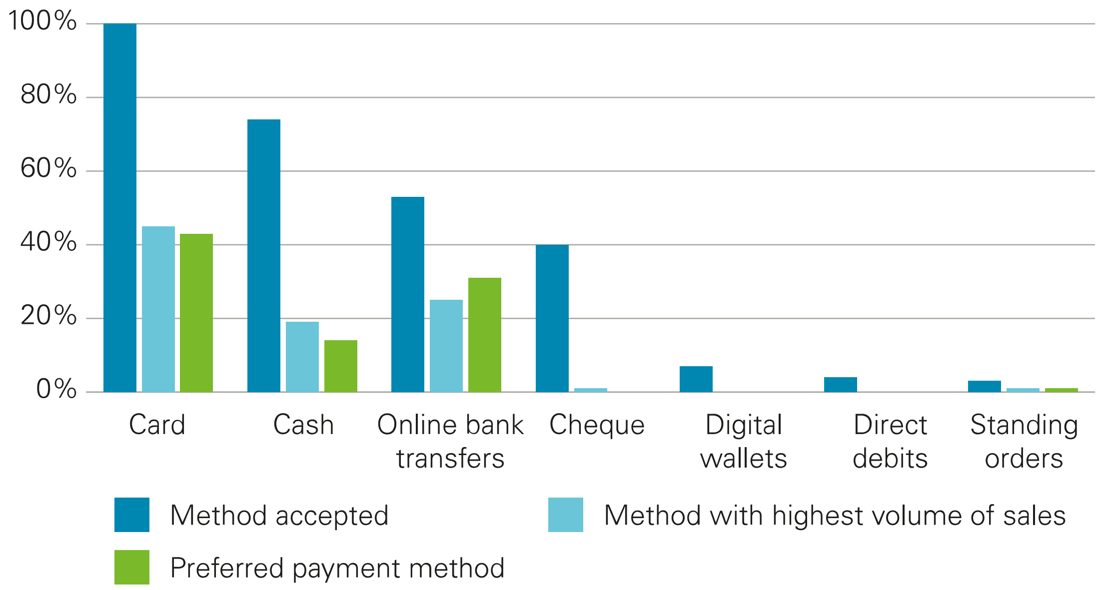
Figure 6: Length of time small and medium-sized merchants have been accepting card payments (n = 1,037)



Source: IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 58.

1.88 Most small and medium-sized merchants also accept payment methods other than cards. As shown in Figure 7, 74% of survey participants accepted cash, 53% accepted online bank transfers and 40% accepted cheques.

Figure 7: Payment methods accepted by small and medium-sized merchants (n = 1,037)



Source: IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 42.

1.89 In some sectors, cards are the most frequently used payment method. In 2020, credit and debit cards accounted for 90%, 73% and 73% of spontaneous payments in the travel, retail and entertainment sectors respectively.[34] In other sectors, card payments are much less prevalent. Most consumers pay utility bills and make monthly mortgage repayments by direct debit.[35]

1.90 Merchants can accept card payments face to face, online, over the phone or by mail order. Most small and medium-sized merchants we surveyed accepted card payments in more than one operating environment and around a quarter only did so face to face.[36] Nearly all the largest merchants we collected information from said that they accepted card payments in more than one operating environment.

1.91 Merchants have two main ways to sell goods and services online:

- **Via their own website or mobile application**. A merchant may build a website or app in house or use an e-commerce platform such as Magento and Shopify. These platforms provide software that helps businesses to design and build a website. They also offer other services such as inventory management and marketing assistance. For more information on e-commerce platforms, see paragraph 1.155.
- **Via an online marketplace.** Online marketplaces are websites or apps that bring together buyers and sellers. Examples include Amazon Marketplace, Etsy, Just Eat and Uber.

1.92 In many cases, the operators of online marketplaces enable buyers to pay sellers by card without leaving the website or app (including by contracting with acquirers or payment facilitators for card-acquiring services). Often, sellers (that is, merchants) may not be able to choose their own provider of card-acquiring services for transactions made on the online marketplace. Therefore, for the purposes of our market review, we consider the supply of card-acquiring services to online marketplaces but not individual sellers using those marketplaces (except insofar as those sellers may buy card-acquiring services from an acquirer or payment facilitator if selling via other channels such as their own website).

34 UK Finance, *UK Payment Markets 2021* (2021), page 25.
35 UK Finance, *UK Payment Markets 2021* (2021), page 13.
36 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 55.

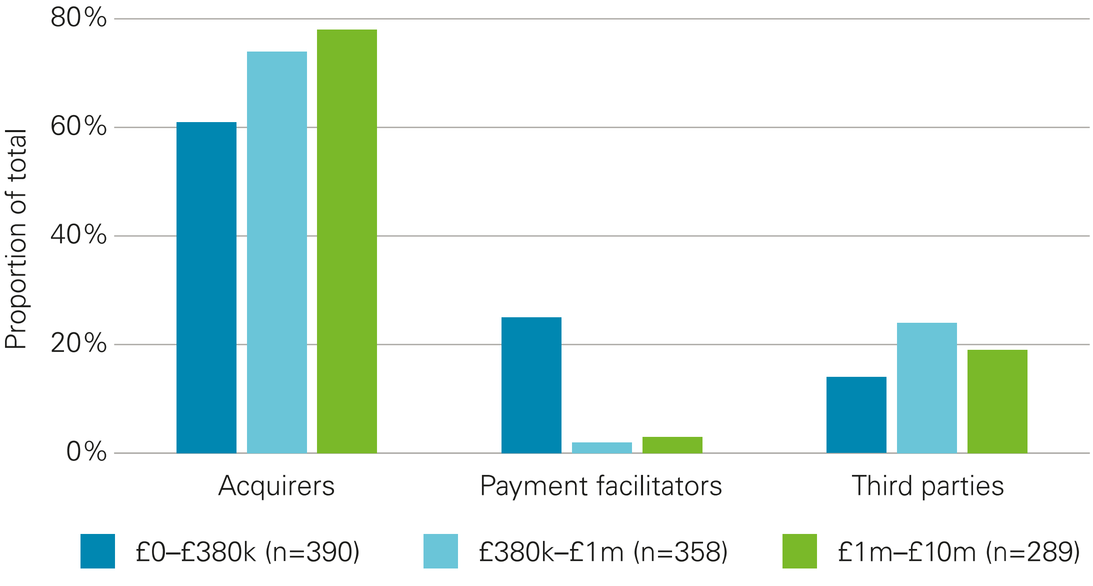
How merchants buy card-acquiring services

Who do merchants buy card-acquiring services from?

1.93 Merchants can buy card-acquiring services from acquirers or payment facilitators. In our survey of small and medium-sized merchants, 62% and 23% of participants, respectively, identified an acquirer and payment facilitator as their main provider of card-acquiring services.[37] The remainder identified a third party as their main provider of these services.[38]

1.94 Our survey shows that merchants choosing a payment facilitator as their main provider are more likely to be the smallest merchants with annual card turnover below £380,000 and only accept card payments face to face. As shown in Figure 8, 25% of the smallest merchants said that a payment facilitator was their main provider of card-acquiring services, compared to around 2% of those with annual card turnover above £380,000. Around 40% of merchants that only accept card payments face to face said they were served by a payment facilitator, compared to approximately 10% who accept card payments in other operating environments (such as online only).[39]

Figure 8: Type of provider of small and medium-sized merchants by card turnover (n = 1,037)



Source: IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 64.

37 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 10.

38 Some participants in our survey identified third parties – that is, firms that are not acquirers or payment facilitators – as their main provider of card-acquiring services. When describing the results of our survey, where we use the term 'providers' we mean the firm the merchant identified as its main provider of card-acquiring services.

39 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 65.

1.95 Some participants in our survey identified third parties – that is, firms that are not acquirers or payment facilitators – as their main provider of card-acquiring services. Most of these third parties are ISOs, which sell card-acquiring services on behalf of an acquirer alongside card acceptance products and value-added services (for an explanation of these terms, see paragraphs 1.64 to 1.80). ISOs have a similar offering to most acquirers and commonly provide ongoing customer services to merchants (including in relation to card-acquiring services) after completing the sale. This may explain why some merchants identified ISOs as their main provider of card-acquiring services. We provide more information on ISOs in paragraphs 1.132 to 1.143.

1.96 Large merchants typically buy card-acquiring services from acquirers (see Chapter 4 of our final report). Most of the largest merchants we collected information from said that they have more than one acquirer for various reasons including:

- to enable them to benchmark the card-acquiring services they receive
- to improve their bargaining position with their providers, for example by playing off one provider against another
- to improve resilience, because if one acquirer is unavailable due to planned downtime or an outage they can shift card transactions to another
- to obtain access to a greater variety of products and services (in addition to card-acquiring services) that may not be offered by a single provider

1.97 Some (15%) small and medium-sized merchants that we surveyed said they had more than one provider of card-acquiring services. Over half said this is because they have different providers for different operating environments (for example, one for their shop and another for their website).[40]

How merchants establish relationships with their provider

1.98 Our survey finds that 46% of small and medium-sized merchants established their relationship with their main provider by approaching them directly. Many were also referred to the provider or approached.[41]

1.99 A recent survey conducted by RFi Group broadly aligns with our findings. Merchants were asked how they discovered and researched the provider(s) they chose for 'merchant acquiring services'. 29% said they discovered and researched their provider via their website, 26% received a recommendation, 21% did their own research online and 20% heard by word of mouth.[42]

40 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 9.

41 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 13.

42 Merchants were allowed to provide more than one way of discovering and researching their provider(s). Survey carried out by RFi Group for the UK Merchant Acquiring Council in H2 2019..

1.100 Most of the largest merchants we collected information from used competitive tenders when selecting a provider. These merchants reported that running tenders helped them compare offerings and secure the best price. Some also said that they used specialist consultants, for example to help them run tenders.

Other products and services merchants buy

1.101 In addition to card-acquiring services, merchants can buy card acceptance products and value-added services from their provider (see paragraphs 1.64 to 1.80).

1.102 In our survey, 84% of small and medium-sized merchants buy all the products they need to accept card payments from or via a single provider (that is, they one-stop-shop).[43] The most commonly cited reasons merchants gave for buying everything from one provider were that this is more cost effective and more convenient and because card-acquiring services and other products were sold together as part of a package.[44] Some merchants identified a third party as their provider, many of which are ISOs (see paragraph 1.95). Merchants that approach or are approached by an ISO can one-stop-shop because ISOs offer a package of goods and services that together enable a merchant to accept card payments (albeit they will refer the merchant to an acquirer for card-acquiring services and may refer them to a third-party POS terminal provider for a POS terminal).

1.103 Large merchants are more likely to buy card acceptance products and value-added services from third parties rather than their acquirer. Nearly all the largest merchants we gathered information from sourced POS terminals, payment gateways or value-added services from third parties. This may be changing – one acquirer told us that they are increasingly finding large merchants are seeking a single provider for card-acquiring services and card acceptance products for various reasons including to reduce complexity.

Characteristics of providers that matter to merchants

1.104 Our merchant survey asked small and medium-sized merchants what factors they considered when they search for providers – that is, assess their own needs, access information about providers and compare provider offerings.[45] Price of card-acquiring services was the most commonly cited factor. Other commonly cited factors were:

- the payment methods offered
- the price of other products
- the speed of settlement[46]

43 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 20.
44 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 20.
45 In the merchant survey, we used the term 'shop around'.
46 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slides 34, 36 and 38.

1.105 In addition, 25% of merchants that considered switching but ultimately did not switch said that one reason was that their provider gave them a discount or better offer, which further underlines the importance of price to merchants.[47]

1.106 Other surveys we've seen also find that price is an important consideration for merchants but not significantly more important than other factors. A recent survey conducted by RFi Group found that trust in the provider was the most commonly cited reason merchants that had switched in the last three years gave for choosing their provider. Speed of settlement and the ease of doing business with the provider were also important. The same survey found that high fees, settlement speed and speed of transaction processing were the main drivers of switching in the last three years.[48]

1.107 We asked the largest merchants we collected information from what factors are most important when choosing their acquirer. Price, customer service and reporting were the most commonly cited considerations. Other factors considered included the range of payments methods offered and the speed of settlement.

47 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 27.

48 Survey carried by RFi Group for the UK Merchant Acquiring Council in H2 2019.

Acquirers and payment facilitators serving merchants

1.108 A small number of providers account for 97% of card transactions acquired at UK outlets by volume (that is, number) and value of transactions.[49] We categorise these providers as follows and briefly introduce each below:

- The **five largest acquirers** (as measured by the volume and value of card transactions acquired in 2018) – Barclaycard, Elavon, Global Payments, Lloyds Cardnet and Worldpay.
- **Other acquirers** – Adyen, AIB Merchant Services, Chase Paymentech, EVO Payments, First Data and Stripe.
- The **largest payment facilitators** – PayPal (including Zettle), Square and SumUp.

Five largest acquirers

Barclaycard

1.109 Barclaycard is a trading name of Barclays Bank PLC and Barclaycard International Payments Limited, both of which are ultimately owned by Barclays PLC (the holding company for the Barclays Group – a transatlantic consumer and wholesale bank headquartered in the UK that is listed on the London Stock Exchange). Barclays Bank PLC is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Barclaycard International Payments Limited is regulated by the Central Bank of Ireland.

1.110 Barclaycard offers card-acquiring services, POS terminals, card readers, payment gateways and value-added services to merchants. It serves merchants of all sizes, enabling them to accept card payments face to face, online, in app, over the phone or by mail order. Barclaycard is an acquirer for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Barclaycard also facilitates the acceptance of payments using American Express.

Elavon

1.111 Elavon Merchant Services ('Elavon') is a trading name of Elavon Financial Services DAC (EFS), a wholly owned subsidiary of US Bancorp (a US bank listed on the New York Stock Exchange). EFS is regulated by the Central Bank of Ireland.

49 PSR analysis of data provided by acquirers and operators of card payment systems.

1.112 Elavon offers card-acquiring services, POS terminals, card readers, payment gateways and value-added services. It serves merchants of all sizes, enabling them to accept card payments face to face, online, in app, over the phone and by mail order. Elavon is an acquirer for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Elavon also facilitates the acceptance of payments using American Express.

Global Payments

1.113 GPUK LLP (trading as Global Payments) is a subsidiary of Global Payments Inc, which is a global provider of payments technology headquartered in the US and listed on the New York Stock Exchange. GPUK LLP is authorised and regulated by the FCA. It was originally created as a joint venture with HSBC in 2008. HSBC sold its stake to Global Payments Inc the following year.

1.114 Global Payments offers card-acquiring services, POS terminals, card readers, payment gateways and value-added services. It serves merchants of all sizes, enabling them to accept card transactions face to face, online, in app, over the phone and by mail order. Global Payments is an acquirer for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Global Payments also facilitates the acceptance of payments using American Express.

Lloyds Bank Cardnet

1.115 Lloyds Bank Cardnet is a joint venture between Fiserv (see paragraph 1.124) and Lloyds Bank plc (a wholly owned subsidiary of Lloyds Banking Group, a predominantly UK-focused provider of financial services including retail and commercial banking and general insurance that is headquartered in the UK and listed on the London Stock Exchange). Lloyds Bank plc is authorised by the PRA and regulated by the FCA and the PRA.

1.116 Lloyds Bank Cardnet offers card-acquiring services, POS terminals, a payment gateway and value-added services. Merchants that want a POS terminal are referred to third-party POS terminal providers (see paragraph 1.159) including First Data Global Leasing (FDGL) and Merchant Rentals. Lloyds Bank Cardnet serves merchants of all sizes and enables them to take card transactions face to face, online, in app, over the phone and by mail order. It is an acquirer for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Lloyds Bank Cardnet also facilitates the acceptance of payments using American Express.

Worldpay

1.117 Worldpay is a global provider of financial technology services specialising in merchant acquiring and payment card processing services. It is owned by Fidelity National Information Services, Inc (FIS), which is a global provider of technology services to merchants, banks and capital markets that is headquartered in the US and listed on the New York Stock Exchange. Worldpay was originally part of the Royal Bank of Scotland before being sold to two private equity firms in 2010 and then listed on the London

Stock Exchange in 2015. It was subsequently acquired by Vantiv in 2018 and then Vantiv was in turn bought by FIS in 2019.

1.118 Worldpay provides card-acquiring services to UK merchants through Worldpay (UK) Limited (which is authorised and regulated by the FCA) and Worldpay B.V. (which is authorised and regulated by the central bank of the Netherlands – DNB). It also offers POS terminals, card readers, payment gateways and value-added services. Worldpay serves merchants of all sizes and enables them to accept card transactions face to face, online, in app, over the phone and by mail order. It is an acquirer for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Worldpay also facilitates the acceptance of payments using American Express.

Other acquirers

Adyen

1.119 Adyen N.V. ('Adyen') is a global payments company headquartered in the Netherlands and listed on Euronext. It is authorised and regulated by the DNB. Adyen predominantly focuses on large enterprise merchants. It offers card-acquiring services, a payment gateway, POS terminals and value-added services. Adyen is an acquirer for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Adyen also facilitates the acceptance of payments using American Express.

AIB Merchant Services

1.120 AIB Merchant Services ('AIBMS') is a trading name of First Merchant Processing (Ireland) DAC, a joint venture between Allied Irish Banks PLC and Fiserv (see paragraph 1.124). Allied Irish Banks PLC is a financial services group operating predominantly in the Republic of Ireland and the UK that is headquartered in the Republic of Ireland and listed on the London Stock Exchange. AIBMS is regulated by the Central Bank of Ireland.

1.121 AIBMS offers card-acquiring services, POS terminals, a payment gateway and value-added services. Merchants that want a POS terminal are referred to FDGL. AIBMS serves merchants of all sizes and enables them to accept card transactions face to face, online, in app, over the phone and by mail order. AIBMS is an acquirer for the following card payment systems operating in the UK: DCI, Mastercard, Visa and UPI.

Chase Paymentech

1.122 Chase Paymentech Europe Limited ('Chase Paymentech') is owned by J.P. Morgan Chase & Co, a global provider of financial services including retail and commercial banking that is headquartered in the US and listed on the New York Stock Exchange. Chase Paymentech is authorised and regulated by the Central Bank of Ireland and primarily acquires card-not-present transactions for large multi-national merchants; it also provides other services. It is an acquirer for the following card payment systems operating in the UK: JCB, Mastercard, Visa and UPI.

EVO Payments

1.123 EVO Payments International GmbH ('EVO Payments') is a wholly owned subsidiary of EVO Payments Inc (a global acquirer and payments processor headquartered in the US and listed on the Nasdaq). EVO Payments is authorised and regulated by BaFin – the Federal Financial Supervisory Authority in Germany. EVO Payments predominantly serves small and medium-sized merchants and enables them to accept card transactions face to face, online, in app, over the phone and by mail order. It offers card-acquiring services, POS terminals, a payment gateway and value-added services. It is an acquirer for the following card payment systems operating in the UK: Mastercard, Visa and UPI. EVO Payments also facilitates the acceptance of payments using American Express.

First Data

1.124 First Data Europe Limited ('First Data') is owned by Fiserv, a global provider of financial services technology that is headquartered in the US and listed on the Nasdaq. First Data is authorised and regulated by the FCA. It began trading in 2013, at which time it acquired the acquiring business owned by Bank of Scotland (now part of Lloyds Banking Group).

1.125 First Data serves merchants of all sizes, enabling them to accept card payments face to face, online, in app, over the phone and by mail order. It offers card-acquiring services, POS terminals, card readers, payment gateways and value-added services. Merchants that want a POS terminal are referred to FDGL. First Data is an acquirer for DCI, Mastercard, Visa and UPI. It also facilitates the acceptance of payments using American Express.

Stripe

1.126 Stripe Payments UK Ltd ('Stripe') is an indirect wholly owned subsidiary of Stripe Inc, a privately owned technology company that is headquartered in the US and provides software tools for businesses to accept payments and manage an online business. Stripe started providing card-acquiring services to UK merchants as a payment facilitator in 2013 before becoming an acquirer. It is an authorised Electronic Money Institution and regulated by the FCA. Stripe mainly serves merchants of all sizes selling online and in app. It offers card-acquiring services, a payment gateway and value-added services. Stripe is an acquirer for Mastercard and Visa. It also facilitates the acceptance of payments using American Express.

Largest payment facilitators

PayPal (including Zettle)

1.127 PayPal Europe ('PayPal') is ultimately wholly owned by PayPal Holdings, Inc – a global technology platform and digital payments company that enables, among other things, digital and mobile payments on behalf of consumers and merchants. PayPal Holdings Inc is headquartered in the US and listed on the Nasdaq. PayPal Europe is authorised and regulated by the supervisory authority of the Luxembourg financial sector (CCSF).

PayPal provides card-acquiring services, card acceptance products and value-added services to UK merchants of all sizes through four products: Braintree, PayPal Commerce Platform, PayPal Here and PayPal Pro. Braintree, PayPal Commerce Platform and PayPal Pro enable merchants to accept card payments online; PayPal Here enables merchants to accept card payments face to face. PayPal is registered as a payment facilitator for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI, and facilitates the acceptance of payments using American Express. PayPal also offers a variety of other products in the UK including the PayPal digital wallet, PayPal Credit, Xoom and Hyperwallet.

1.128 In 2018, PayPal Holdings Inc acquired a payment facilitator called iZettle AB ('iZettle'). This now operates as Zettle by PayPal and is authorised and regulated by the Swedish Financial Supervisory Authority. Zettle predominantly serves the smallest merchants selling face to face (though it also enables merchants to accept card-not-present transactions). It offers card-acquiring services, card readers and value-added services. Zettle is registered as a payment facilitator for the following card payment systems operating in the UK: DCI, JCB, Mastercard, Visa and UPI. Zettle also facilitates the acceptance of payments using American Express.

Square

1.129 Squareup International Limited ('Square') is wholly owned by Square, Inc – a US-headquartered technology company that is listed on the New York Stock Exchange and provides products and services to merchants to help them grow their businesses. Squareup Europe Limited – a subsidiary of Squareup International Limited – is authorised and regulated by the FCA. Square predominantly provides card-acquiring services (and card readers and value-added services) to the smallest merchants selling face to face, though it also serves merchants selling online. Square is a payment facilitator for the Mastercard and Visa card payment systems. Square also facilitates the acceptance of payments using American Express.

SumUp

1.130 SumUp Holdings Luxembourg S.à.r.l ('SumUp') is a privately owned holdings company that is headquartered in Luxembourg. SumUp Payments Limited – a subsidiary of SumUp – is authorised and regulated by the FCA. SumUp predominantly provides card-acquiring services (and card readers and value-added services) to the smallest merchants selling face to face, though it also serves merchants selling online. SumUp is a payment facilitator for the Mastercard, Visa, Diners, Discover and UPI card payment systems. SumUp also facilitates the acceptance of payments using American Express.

Third parties that help merchants accept card payments

1.131 Merchants can buy card acceptance products, such as POS terminals, and value-added services from third parties. These third parties may also recommend or refer merchants to an acquirer or payment facilitator and hence can be an important entry point for merchants looking to buy card-acquiring services. In this section, we describe some of these third parties and how they help merchants accept card payments.

ISOs

1.132 ISOs sell card-acquiring services to merchants on behalf of one or several acquirers, alongside other card acceptance products and value-added services. There are over 60 ISOs operating in the UK[50]; Handepay, Paymentsense, RMS, takepayments (formerly Payzone) and UTP are five of the largest and together they had approximately 175,000 merchants at the end of 2018.[51] ISOs must be registered by acquirers with the operators of card payment systems.

1.133 ISOs are agents of the acquirer that are tasked with procuring new merchant relationships in return for commission. ISOs refer merchants to acquirers for card-acquiring services; ISOs do not provide these services themselves. ISOs differ from other third parties that refer merchants to acquirers because in most cases they are permitted to agree with merchants the price they will pay for card-acquiring services. [✂] The acquirer has no direct involvement in the sales process, which is outsourced to the ISO. ISOs' discretion over pricing of card-acquiring services varies. [✂]

1.134 Once a sale is agreed, ISOs help merchants to complete the acquirer's application form for card-acquiring services and submit this to the acquirer. The acquirer then carries out its usual onboarding process to decide whether to serve the merchant and has the option to reject the application.

1.135 ISOs commonly provide customer services to merchants after they refer them to an acquirer. All the ISOs we collected information from said that merchants would typically contact them in the first instance with queries about card-acquiring services (and any other product they were sold by the ISO, such as POS terminals). The ISOs differ in how they handle queries about card-acquiring services: some automatically direct the

50 PSR analysis of data provided by acquirers on third parties that refer merchants.

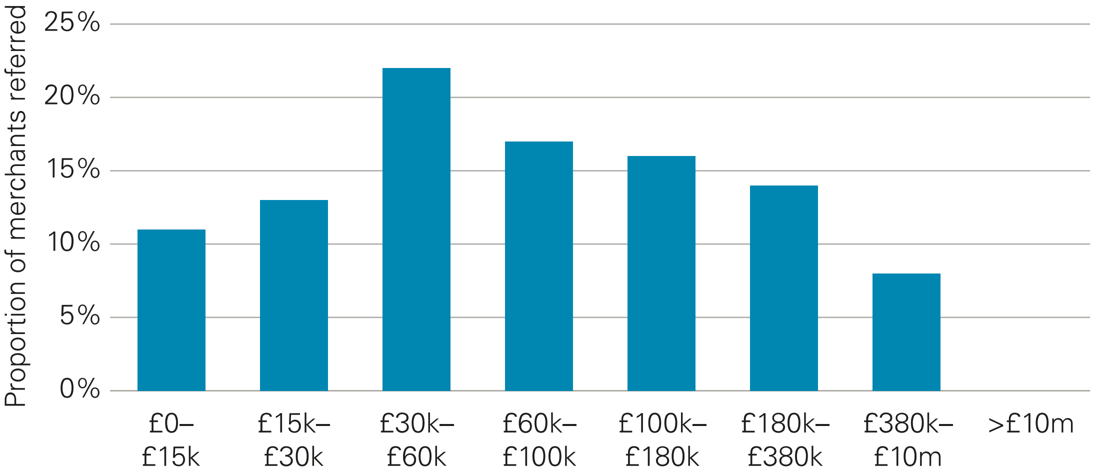
51 PSR analysis of data provided by ISOs.

merchant to their acquirer while others will seek to resolve the query themselves (including by liaising with the acquirer on behalf of the merchant).

1.136 ISOs predominantly refer merchants that sell face to face to acquirers. [✂]

1.137 As shown in Figure 9, nearly all the merchants ISOs refer to acquirers have an annual card turnover of up to £1 million. The ISOs we collected information from said they target small and medium-sized merchants.

Figure 9: Annual card turnover in 2018 of merchants referred by ISOs to four of the five largest acquirers



Source: PSR analysis of data provided by four acquirers.

1.138 ISOs have large sales teams working to procure new merchant relationships. An important part of their customer acquisition strategies involves field sales or telesales agents cold calling merchants – that is, making unsolicited calls to merchants by phone or by visiting their place of business. ISOs also use other customer acquisition channels such as their own websites, price comparison websites and referrals from third parties such as ISVs.

1.139 ISOs earn commission from referring merchants to acquirers. Commercial arrangements vary but generally the ISO receives the MSC (that is, the amount the merchant pays to the acquirer for card-acquiring services, which is agreed between the merchant and the ISO) less certain fees the acquirer charges the ISO (which can include interchange fees, scheme fees and processing fees). Generally, the majority of ISOs' revenue comes from commission earned from referring merchants to acquirers for card-acquiring services: on average, the ISOs we collected information from obtained around 60% of their revenue in 2018 from this activity. Acquirers generally require or provide incentives for ISOs to generate a certain amount of revenue from referrals or refer a certain number of merchants.

1.140 POS terminals are another source of revenue for ISOs. Depending on the ISO, there are different commercial arrangements:

- Some merchants hire POS terminals from ISOs for a fixed monthly fee.
- Some merchants pay for services or membership from the ISO (or third-party provider) for which they receive a POS terminal free of charge to use in conjunction with other services.
- Some merchants are referred by ISOs to a third-party POS terminal provider, which supplies the POS terminal(s) to the merchant. The ISO receives commission from the third-party POS terminal provider.

1.141 Acquirers often place restrictions on the types of merchants that ISOs can procure. For example, by prohibiting or placing conditions on ISO procurement of certain types of merchants that are considered high risk to serve.

1.142 In addition, acquirers typically include non-solicitation clauses in their agreements with ISOs that prevent ISOs from approaching merchants they have referred (and in some cases, any of the acquirer's customers) during the term of the agreement and sometimes for a period of 12 months after the end of the agreement. One ISO that works with more than one acquirer told us that non-solicitation clauses in acquirer contracts mean that in many cases ISOs do not want to contract with too many acquirers as this would limit the pool of merchants they could procure.

1.143 Some ISOs work with more than one acquirer, [✂]. There were various reasons given for working with more than one acquirer including to create some competitive tension between acquirers. Differences in acquirers' risk appetites [✂] and capabilities (some acquirers are better at serving certain [✂].

Other third parties

1.144 In this section, we describe some of the third parties – other than ISOs – that help merchants accept card payments.

Banks

1.145 High-street banks that do not have their own acquiring business, such as HSBC and Santander, often have referral agreements in place with acquirers or payment facilitators. Most of the banks we spoke to have referral relationships, whereby customers of the bank that wish to accept card payments are referred to an acquirer or payment facilitator to discuss their card acceptance needs. All the banks we spoke to said that their customers are free to choose any provider of card-acquiring services that meets their needs.

Comparison websites

1.146 These are websites (and apps) that allow merchants to compare or obtain quotes for card-acquiring services and card acceptance products from acquirers, ISOs and payment facilitators. Examples include Approved Index, Cardswitcher and Companeo.

1.147 Cardswitcher enables small and medium-sized merchants to compare prices of card-acquiring services. Merchants complete an online form and are presented with a list of quotes for card-acquiring services (and other products they might need, like POS terminals) from Cardswitcher's partners. The quotes presented are mainly from ISOs. The merchant can then choose to follow up on any of the quotes by asking to be contacted by one or more of the partners.

1.148 Other websites and apps such as Approved Index and Campaneo also enable merchants to obtain quotes for card-acquiring services but operate on a different model. Unlike Cardswitcher, these websites do not provide a list of quotes for card-acquiring services. Instead, the merchant completes an online form with details about its business and needs, which is sent to several of the website's partners (which include acquirers, payment facilitators and ISOs). The partners then follow up on these leads by contacting the merchant.

Gateway providers

1.149 Many firms offer payment gateways including acquirers, payment facilitators and ISOs. Gateway providers are firms that specialise in providing this product but do not provide card-acquiring services. Gateway providers may offer a payment gateway for online payments as well as payments accepted face to face (sometimes alongside POS terminals that the merchant can buy or hire). Examples of gateway providers include CyberSource (owned by Visa) and Sage Pay (now owned by Elavon).

1.150 Gateway providers are involved with the processing of card transactions but – unlike acquirers and payment facilitators – do not settle with the merchant. The scope of services provided by gateway providers varies, but typically they will at a minimum facilitate card transactions by:

- forwarding the authorisation request from the merchant to the acquirer, which sends this to the cardholder's bank via the operator of the card payment system
- receiving the issuer's response to the authorisation request from the acquirer and forwarding this to the merchant
- batching up the merchant's card transactions and sending these to the acquirer, which submits these to the operator of the card payment system for clearing and settlement

1.151 Importantly, the merchant's acquirer (not the gateway provider) will transfer the funds for the card payments it accepts.

1.152 Gateway providers may also offer additional goods and services such as:

- services that help merchants detect and prevent fraudulent transactions
- DCC (see paragraph 1.78)
- detailed reporting and analysis on the payments the merchant accepts

1.153 Gateway providers connect to multiple providers of card-acquiring services (mainly acquirers). Gateway providers typically have referral arrangements with acquirers.

Independent software vendors (ISVs)

1.154 ISVs specialise in offering software (and in some cases, complimentary hardware) that helps merchants run their businesses. ISVs often have referral relationships with acquirers and payment facilitators.

1.155 For example, some ISVs specialise in software that helps merchants build a website and sell online such as Magento (owned by Adobe Inc), Shopify and Wix. Typically, e-commerce platforms have integrations with multiple acquirers and payment facilitators.[52] Some e-commerce platforms have referral arrangements with acquirers and payment facilitators they are integrated with. Some e-commerce platforms have a preferred provider that they promote to merchants.

1.156 Other ISVs specialise in offering EPOS systems to businesses selling face to face, such as EPOS Now and Vend. An EPOS system is a combination of hardware and software that helps brick-and-mortar merchants run their businesses by supporting, for example, inventory management, payroll and management information reporting. Payments functionality can be integrated with the EPOS system so that, for example, the value of the item being bought in a shop is automatically displayed on the POS terminal after being scanned. Some ISVs that provide EPOS systems have referral arrangements with acquirers, ISOs and payment facilitators.

1.157 Other ISVs provide accounting software, such as Sage and Xero. There are various ways such ISVs can integrate with providers of card-acquiring services. One form of integration allows information on card transactions to be automatically imported into the accounting application. Some ISVs providing accounting software have referral arrangements with providers of card-acquiring services.

52 An e-commerce platform may also integrate with gateway providers. A merchant that chooses a gateway provider will also need to contract for card-acquiring services with an acquirer.

POS terminal manufacturers

1.158 POS terminal manufacturers sell POS terminals to acquirers, ISOs and other third parties, and in some cases directly to merchants. Ingenico and Verifone are examples of POS terminal manufacturers. Both also offer payment gateways, and other goods and services.

Third-party POS terminal providers

1.159 Third-party POS terminal providers like First Data Global Leasing (owned by Fiserv – see paragraph 1.124) and Merchant Rentals supply POS terminals to merchants. They work with acquirers and ISOs, who receive commission for referring merchants that want a POS terminal to third-party POS terminal providers. The acquirer or ISO agrees with the merchant the monthly fee that the merchant will pay for hiring the POS terminal supplied by the third-party POS terminal provider and signs them up to a rental agreement. The agreement is between the third-party POS terminal provider (which owns the POS terminal) and the merchant.

1.160 [✂]

Trade associations

1.161 Some trade associations such as the Federation of Small Businesses refer their members to acquirers.

Pricing of card-acquiring services and other products

1.162 In this section, we describe the pricing of card-acquiring services and certain other products by acquirers, payment facilitators and ISOs.

Acquirer pricing of card-acquiring services and other products

1.163 Most acquirers can provide card-acquiring services as a standalone product. They usually also offer a package of goods and services that together enable merchants to accept card payments. A typical basic offering for a merchant selling face to face would include:

- card-acquiring services
- one or more POS terminals, which the merchant hires
- services to enable the merchant to certify (and in some cases, assist) their compliance with PCI DSS requirements

1.164 Some acquirers offer card readers as well as POS terminals.

1.165 For merchants selling online that want to buy everything they need to accept card payments from an acquirer, the typical basic offering is the same as that for merchants selling face to face except that the acquirer provides a payment gateway rather than a POS terminal.

1.166 Merchants can also buy other value-added services from their acquirer (see paragraph 1.78).

1.167 Some acquirers may offer POS terminals, payment gateways, PCI DSS compliance services and other value-added services in partnership with third parties. For example, Lloyds Bank Cardnet (see paragraph 1.116) and AIB Merchant Services (see paragraph 1.121) refer merchants that want a POS terminal to third-party POS terminal providers.

1.168 The remainder of this section describes the pricing of the main components of the acquirers' typical offering for merchants selling face to face and online.

Pricing of card-acquiring services

1.169 Acquirers tend to price card-acquiring services separately from card acceptance products and value-added services.

1.170 The MSC is the total amount the merchant pays for card-acquiring services to its acquirer. The MSC has three main parts:

- interchange fees, paid by the acquirer to the issuer
- scheme fees, paid by the acquirer (and issuer) to the operators of card payment systems (such as Visa)
- acquirer net revenue, which recovers the acquirer's other costs and margin

1.171 Merchants served by acquirers have one or more of the following pricing options for card-acquiring services:

- Standard pricing, whereby for any given transaction the acquirer does not automatically pass through at cost the interchange fee applicable to the transaction and the pricing option does not satisfy the criteria for IC+, IC++ or fixed pricing.[53]
- Interchange fee plus (IC+) pricing, whereby for any given transaction the acquirer automatically passes on at cost the interchange fee applicable to that transaction.
- Interchange fee plus plus (IC++) pricing, whereby for any given transaction the acquirer automatically passes on at cost the interchange fee and scheme fees[54] applicable to that transaction.
- Fixed pricing, whereby the merchant pays a fixed, periodic fee for card-acquiring services (the amount of which does not depend on the volume or value of transactions it accepts or the characteristics of these transactions, within specified limits).

53 Only where a pricing option passes through interchange fees at cost for all transactions will it be considered IC++ or IC+ pricing. (With IC++ pricing, scheme fees are also passed through at cost.) A pricing option that applies a per-transaction fee for card-acquiring services and passes through at cost the interchange fees applicable to some, but not all, transactions will satisfy the criteria for standard pricing.

54 The acquirer may also pass on at cost scheme fees that are not directly attributable to transactions.

1.172 Table 2 below shows the pricing options of ten acquirers.

Table 2: Acquirers' pricing options

Acquirer	IC++	IC+	Standard	Fixed
Adyen[55]	✓	×	×	×
AIB Merchant Services[56]	✓	×	✓	×
Barclaycard	✓	×	✓	×
Lloyds Bank Cardnet	✓	✓	✓	×
Elavon	✓	×	✓	×
EVO Payments	✓	×	✓	✓
First Data	✓	✓	✓	×
Global Payments	✓	✓	✓	×
Stripe	✓	×	✓	×
Worldpay	✓	✓	✓	✓

Source: Information submitted by acquirers.

Standard pricing – overview

1.173 Over 95% of acquirers' merchants have standard pricing, which typically consists of:

- one or more 'headline rates' (typically several) that are applied to different types of purchase transactions (and sometimes refunds), and can take the form of an ad valorem fee, a pence-per-transaction fee or a combined ad valorem and pence-per-transaction fee
- one or more additional fees, which are mainly triggered by:
  - specific events such as chargebacks, refunds and PCI DSS non-compliance ('non-transactional additional fees'), and/or
  - specific types of purchase transactions (and sometimes refunds) such as e-commerce transactions ('transactional additional fees')

55 Adyen has IC++ pricing for global card payment systems (where possible and applicable). For some payment methods Adyen has 'blended pricing' where permitted by the relevant network and regulations.

56 There are circumstances in which AIB Merchant Services would apply standard pricing if requested by the merchant.

1.174 Additional transactional fees are added to the relevant headline rates. For example, a merchant might pay a single headline rate of 1.2% for all debit card transactions plus an additional fee of 1% where such transactions involve debit cards issued outside the EU.

1.175 Examples of non-transactional fees include the following:

- Administration fees, which are triggered when the acquirer makes certain changes to the merchant's account (for example, to update the merchant's details).
- Authorisation request fees, which are triggered when the merchant makes an authorisation request. Some acquirers have different fees depending on the authorisation method.
- Chargeback fees, which are triggered by a chargeback being raised against the merchant. Some acquirers always apply a fee when a chargeback is raised. Others charge only if the chargeback is upheld or if it exceeds a certain value.
- Integrity fees, which are triggered where an authorisation request does not meet certain conditions.
- Minimum monthly service charge (MMSC), which is triggered when the merchant's fees do not exceed a minimum amount in a month.
- PCI DSS non-compliance fees, which are triggered where the merchant does not certify their compliance.
- Refund fees, which are triggered when the merchant refunds a purchase. Some acquirers do not charge for refunds or gross charge (that is, they apply the relevant headline rate to purchase transactions plus refunds).
- Termination fees, which are triggered where the merchant terminates the card-acquiring services contract within six months.

1.176 The MSC is the total amount the merchant pays the acquirer for card-acquiring services including any additional transactional and non-transactional fees.

1.177 Most acquirers that have standard pricing do not publish their prices. Instead, the price they quote to a merchant is determined by the information that a sales agent collects about the merchant's characteristics during the sales process. Depending on the acquirer, the characteristics considered may include:

- the value of transactions the merchant accepts per year
- the merchant's average transaction value (ATV)
- the mix of card types the merchant accepts
- the merchant's operating environment(s)

- the merchant's industry
- the merchant's current price (if it is already accepting cards)

1.178 Acquirers gather information from the merchant to enable them to provide a quote. Where a merchant is already accepting cards, a recent bill may be requested. If a merchant is new to cards, the industry they operate in can be used to forecast – for example – its likely ATV or the mix of card types it will accept. Sales agents may also draw on their own experience.

1.179 The structure of acquirers' standard pricing varies significantly because firms differ:

- in how they vary the headline rate according to the characteristics of a transaction
- in how they express the headline rate(s)
- in the additional transactional fees they have
- in the additional non-transactional fees they have

1.180 In the sections that follow, we describe the standard pricing options used by seven acquirers. We identify the headline rate where published.[57]

Barclays

1.181 For merchants with annual turnover below [✂][58], Barclays' 'blended tariff' has five 'price points':

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.182 [✂]

1.183 [✂]

57 As noted in paragraph 1.2, the pricing information shown may reflect pricing that was in place at the time the interim report was published in September 2020. We indicate where this information has been updated.

58 [✂]

1.184 There are additional fees for the following types of purchase transaction:

- [✂]
- [✂]
- [✂]

1.185 The following non-transactional fees also apply if they are part of the pricing agreed with the merchant and if they are triggered:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

Elavon

1.186 Elavon's 'unblended tariff' has headline rates to accommodate the different Mastercard and Visa card types, as well as JCB, DCI and UPI cards.

1.187 [✂]

1.188 [✂]

1.189 Elavon has standard additional non-transactional fees that can be apply when triggered for situations, such as chargebacks, PCI DSS non-compliance, or late payments.
The fees are:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

- [✂]
- [✂]
- [✂]

EVO Payments

1.190 EVO Payments 'tailor-made' tariff has one secure and one non-secure headline rate, split by Visa/Mastercard for each of the following types of purchase transactions:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.191 [✂]

1.192 There are no additional transactional fees. There are two additional non-transactional fees: [✂].

First Data

1.193 First Data's 'general tariff' has one qualified headline rate and one non-qualified[59] headline rate for each of the following types of purchase transactions:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.194 [✂]

1.195 [✂]

1.196 The following non-transactional fees may apply if triggered:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

59 What constitutes a qualified and non-qualified transaction is agreed between First Data and the merchant.

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

Global Payments

1.197 Global Payments' 'Additional Transaction Fee (ATF) tariff'[60] has different headline rates for up to five transaction types involving EU-issued cards:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.198 [✂]

1.199 [✂]

1.200 There are additional transactional fees (called 'differential fees') for [✂]. Scheme fees can either be included in the headline rate or broken out separately.

1.201 The following non-transactional fees apply if triggered:

- [✂]
- [✂]
- [✂]
- [✂]

60 [✂]

- [✄]
- [✄]
- [✄]

1.202 Global Payments also has another tariff that is the same as the ATF tariff except that there are no differential fees or scheme fees broken out separately from the headline rate.

Lloyds Bank Cardnet

1.203 In the interim report, we noted that Lloyds Bank Cardnet typically has seven different headline rates – one for each of the following types of purchase transaction involving EU-issued cards:

- [✄]
- [✄]
- [✄]
- [✄]
- [✄]
- [✄]
- [✄]

1.204 [✄]

1.205 There are additional fees for the following types of purchase transaction:

- [✄]
- [✄]
- [✄]

1.206 The following non-transactional fees apply if triggered:

- [✄]
- [✄]
- [✄]
- [✄]

- [✂]
- [✂]
- [✂]

Stripe

1.207 Stripe has a different headline rate for two types of purchase transactions involving Mastercard and Visa cards:

- European-issued cards (1.4% plus £0.20)
- Non-European issued cards (2.9% plus £0.20)[61]

1.208 Stripe's merchants also pay an additional fee for the administration of each chargeback incurred (which is reimbursed to the merchant if the disputed payment is found in their favour).

1.209 For merchants with a card turnover above [✂] per month, Stripe may offer a discount on the headline rates [✂].

Worldpay

1.210 At the time of the interim report we noted that Worldpay's 'custom tariff' had [✂] three different transaction types involving cards issued in the UK:

- [✂]
- [✂]
- [✂]

1.211 [✂]

1.212 We noted that there were additional fees for the following types of purchase transaction:

- [✂]
- [✂]
- [✂]
- [✂]

61 We have updated the details of these headline rates to reflect changes since the interim report was published.

- [✂]
- [✂]
- [✂]
- [✂]

1.213 The following non-transactional fees may have applied if triggered:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.214 At the time of the interim report we also noted that Worldpay's 'simplicity tariff' had a single headline rate of 1.5% for all purchase transactions involving Mastercard and Visa cards. This was subject to a fair usage policy, which included transaction mix limits. The headline rate included an annual subscription to SaferPayments, which is a product that helps merchants to achieve compliance with PCI DSS requirements. [✂].

1.215 The simplicity tariff was available to merchants with annual card turnover below [✂] and commercial card/inter-regional transaction volumes below 25% of total card turnover.

1.216 Two non-transactional fees applied if triggered:

- [✂]
- [✂]

1.217 Worldpay's 'pay-as-you-go tariff' had a single headline rate of 2.5% for all transactions involving Mastercard and Visa cards. [✂].

1.218 The 'pay-as-you-go tariff' was available to merchants with annual card turnover below [✂] and commercial card/inter-regional transaction volumes below 25% of total card turnover.

1.219 The same additional fee of [✂] applied for the following types of transaction:

- [✂]
- [✂]
- [✂]

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.220 The following non-transactional fees applied if triggered:

- [✂]
- [✂]
- [✂]

IC++ pricing

1.221 Less than 5% of acquirers' merchants have IC++ pricing. Most acquirers told us that IC++ pricing is available to, or suitable for, large merchants.

1.222 With IC++ pricing, the acquirer automatically passes on interchange fees and scheme fees at cost to the merchant. The remainder of the acquirer's costs plus margin are generally recovered through:

- a processing fee (also called a management fee) charged for each purchase transaction (and in some cases for refunds)
- one or more additional fees, which are usually triggered by specific events (see paragraph 1.174 for examples of these fees)

1.223 The processing fee can take the form of an ad valorem fee, a pence-per-transaction fee or an ad valorem plus pence-per-transaction fee (depending on the acquirer and the merchant's preferences).

1.224 [✂], the same processing fee applies to all purchase transactions irrespective of the characteristics of a transaction because the costs to the acquirer that vary by transaction are interchange fees and scheme fees, both of which are passed on at cost.

IC+ pricing

1.225 A very small number of acquirers' merchants have IC+ pricing. With IC+ pricing, the acquirer automatically passes on interchange fees at cost to the merchant. The remainder of the acquirer's costs (including scheme fees) plus margin are generally recovered through:

- a processing fee (also called a management fee) charged for each purchase transaction (and in some cases for refunds)
- one or more additional fees, which are usually triggered by specific events (see paragraph 1.174 for examples of these fees)

1.226 The processing fee can take the form of an ad valorem fee, a pence-per-transaction fee or an ad valorem plus pence-per-transaction fee (depending on the acquirer and the merchant's preferences).

1.227 Unlike IC++ pricing, the processing fee can vary depending on the characteristics of a transaction (such as card type) because scheme fees – which are recovered through the processing fee – differ depending on transaction characteristics.

Fixed pricing

1.228 A very small number of acquirers' merchants have fixed pricing, whereby they pay a fixed, periodic fee for card-acquiring services (the amount of which does not depend on the volume or value of transactions they accept or the characteristics of these transactions, within specified limits). Two acquirers offer fixed pricing: EVO Payments and Worldpay.

1.229 Worldpay's **fixed monthly tariff** has a fixed monthly fee that covers:

- card-acquiring services for all Mastercard and Visa card transactions as long as the merchant's transaction mix and turnover remain within a pre-agreed fair usage policy
- hire of a POS terminal or provision of a payment gateway
- SaferPayments (see paragraph 1.215)

1.230 The fixed monthly tariff is available to merchants with annual card turnover below [✂] and commercial card/inter-regional transaction volumes below 25% of total card turnover.

1.231 The following non-transactional fees apply if triggered:

- [✂]
- [✂]

1.232 EVO Payments **ready-made tariff** has a fixed monthly fee that covers:

- card-acquiring services for all Mastercard and Visa card transactions (up to a specified value)
- hire of a POS terminal

1.233 EVO Payments makes fixed pricing available to customers with monthly card turnover up to [✂].

1.234 The following non-transactional fees apply if triggered:

- [✂]
- [✂]

Pricing of card acceptance products and PCI DSS compliance services

1.235 The other components of an acquirer's typical offering are usually priced as follows:

- merchants hire POS terminals for a monthly fixed fee
- payment gateways attract a fixed monthly fee (for a specified number of transactions), a fee for each transaction, or a fixed monthly fee plus a fee for each transaction
- services to enable the merchant to certify (and in some cases, assist) their compliance with PCI DSS requirements attract a fixed monthly or yearly fee

1.236 The acquirer considers various factors in agreeing the price of POS terminal hire with the merchant, which may include the length of the hire agreement and the type of POS terminal.

Payment facilitator pricing of card-acquiring services and other products

1.237 The largest payment facilitators – PayPal (through its Zettle brand and PayPal Here product), Square and SumUp – predominantly[62] provide card-acquiring services to merchants selling face to face (though PayPal has other products that it provides as a payment facilitator that are aimed at merchants selling online – see paragraph 1.241). They offer:

- card-acquiring services
- a card reader

62 One payment facilitator reported higher volumes of card-not-present transactions since the COVID crisis began.

1.238 Unlike most acquirers, the largest payment facilitators do not offer a standalone product to help merchants comply with PCI DSS requirements. They cover PCI DSS compliance on behalf of their merchants, or assist with this, as part of the overall fee for card-acquiring services.[63]

1.239 While POS terminals are usually standalone devices, the card reader must be connected to an app on a smartphone or tablet to work. The apps offered by payment facilitators allow the merchant's smartphone or tablet to be used as a POS system. For example, the merchant can add products to an order at the checkout, track their inventory and access information on the transactions they accept. Payment facilitators usually do not charge the merchant to download the apps they provide. Payment facilitators also offer value-added services.

1.240 PayPal (for the Braintree and PayPal Pro products) targets merchants that sell online. PayPal's offering includes card-acquiring services and a payment gateway. PayPal (for the Braintree and PayPal Pro products) does not offer a standalone product to help merchants comply with PCI DSS requirements. PayPal assists its merchants with PCI compliance as part of the overall service although merchants may have their own obligations for PCI DSS compliance. PayPal's Zettle brand, Square and SumUp also enable merchants to accept payments online.

1.241 In the sections that follow, we describe the pricing of the main components of the payment facilitators' typical offering for merchants.[64]

Braintree

1.242 For the Braintree product, PayPal has a single headline rate of 1.9% plus £0.20 for transactions involving Mastercard and Visa issued in the EU. The headline rate includes a payment gateway.

1.243 There are two additional transactions fees:

- a fee of 1% for transactions involving cards issued outside the UK[65]
- a fee of 0.5% for transactions involving American Express cards

1.244 There are additional non-transactional fees for chargebacks and refunds.

1.245 Custom pricing (whereby the merchant receives a reduction on the headline rate) is available on request. Eligibility is determined based on various factors, [✂]. Merchants using Braintree can also have IC+ pricing and IC++ pricing.

63 In some cases, merchants may not need to self-certify.

64 As noted in paragraph 1.2, the pricing information shown may reflect pricing that was in place at the time the interim report was published in September 2020. We indicate where this information has been updated.

65 We have updated this transaction fee information to reflect changes since the interim report was published.

Zettle by PayPal[66]

1.246 Zettle has two pricing plans: Zettle Go and Zettle Food & Drink.

1.247 The Zettle Go pricing plan is aimed at merchants that accept card payments face to face. The merchant pays 1.75% for all card-present transactions. The merchant can also send an invoice to a customer that includes a link that routes the customer to a webpage to enter their card details. The charge for these card-not-present transactions is 2.5%.

1.248 All merchants receive a free app, which allows products to be added to an order at the checkout so that everything can be paid for in a single transaction. The app generates reports for the merchant (for example, on number of products sold) and can be used to track inventory (though it cannot be used to order additional products from suppliers).

1.249 For all pricing plans, card readers are bought outright for a discounted price, currently £29 plus VAT for the first device and £59 plus VAT for subsequent devices. A merchant can choose to buy card readers separately or as part of a bundle with other products such as an iPad or receipt printer.

1.250 The Zettle Food & Drink pricing plan is aimed at restaurants, bars and cafes. It charges 1.75% for all card-present transactions. Merchants pay an additional £29/month for the point-of-sale app that comes with additional specialised features designed to support food and drinks service.

1.251 Custom pricing plans are available for some customers. [✂].

PayPal Here

1.252 PayPal Here has a tiered pricing structure for chip-and-PIN and contactless payments. Merchants pay one of four headline rates depending on their card turnover in the previous month for transactions involving UK-issued Mastercard and Visa cards:

- 2.75% for merchants that have a card turnover of less than £1,500 per month
- 1.75% for merchants that have a card turnover between £1,500 and £6,000 per month
- 1.50% for merchants that have a card turnover between £6,000 and £15,000 per month
- 1% for merchants with over £15,000 per month

1.253 Merchants must make a request to receive the lower headline rates.

66 Some details in this section regarding Zettle pricing information have been updated to reflect changes since the interim report was published.

1.254 There are separate headline rates for:

- magnetic stripe and PAN key entry transactions involving UK-issued Mastercard and Visa cards (3.4% plus £0.20)
- American Express transactions (2.75%)

1.255 There are additional transactional fees for transactions involving cards outside the UK that range from 0.5% to 2%.

1.256 There are additional non-transactional fees for chargebacks.

1.257 Custom pricing (whereby the merchant receives a reduction on the headline rate) is available on request. Merchants using PayPal Here can also have IC+ pricing.

1.258 Card readers are sold upfront for £45 plus VAT. Merchants receive a free app that provides reporting information on transaction activity and can help with inventory management.

PayPal Pro

1.259 PayPal Pro's standard tariff has a headline rate of 3.4% plus a fixed fee for transactions involving UK-issued Mastercard and Visa cards. The fixed fee is determined by the currency in which the transaction is carried out. Merchants also pay a fixed fee of £20 per month. The headline rate includes a payment gateway.

1.260 The same additional transactional fees apply as for the PayPal Here product (see paragraph 1.256). There are additional non-transactional fees for chargebacks and uncaptured authorisations.

1.261 Custom pricing (whereby the merchant receives a reduction on the headline rate) is available on request. Merchants can also have IC+ pricing.

Square

1.262 Square's standard tariff has two headline rates:

- 1.75% for card-present transactions
- 2.5% for card-not-present transactions

1.263 Merchants receive a free point-of-sale app. The app allows products to be added to an order at the checkout in a shop so that the total owed can be calculated. The app provides detailed analytics and reporting to help merchants understand and run their businesses. The merchant can add their inventory to the app and track what is being sold.

1.264 For card-not-present transactions, the headline rate includes a payment gateway.

1.265 The Square Reader costs £16 plus VAT. The Square Terminal costs £149 plus VAT.[67] The Square Terminal does not need to be connected to a smartphone or tablet to operate.

1.266 Custom rates are available to some merchants [✂].

SumUp

1.267 SumUp's standard tariff has three headline rates:

- 1.69% for card-present transactions
- 2.50% for card-not-present transactions
- 2.95% plus £0.25 for card-not-present transactions (with the virtual terminal only)

1.268 The standard pricing option comes with a free app. The app interfaces with the card reader. It operates like a cash register – that is, the merchant can add their product catalogue to it and select the products being bought at checkout. The app includes a dashboard that generates reports on card transactions accepted. Employee accounts can also be set up.

1.269 The headline rate for card-not-present transactions includes a payment gateway.

1.270 Options for merchants for hardware include (prices exclude VAT): an Air card reader is £29, or £39 with a charging dock; a Solo card reader and charging station is £99; a SumUp 3G card reader and printer is £149. The Solo card reader and 3G card reader do not need to be connected to a smartphone or tablet to operate.[68]

1.271 Merchants that accept more than [✂].

ISO pricing of card-acquiring services and other products

1.272 Like acquirers, ISOs offer a package of goods and services that together enable merchants to accept card payments. A typical offering would include:

- **Card-acquiring services.** As explained in paragraphs 1.132 and 1.133, ISOs refer merchants to acquirers for card-acquiring services. ISOs differ from other third parties that refer merchants to acquirers because in most cases they are permitted to agree with merchants the price they will pay for card-acquiring services.

67 We have updated the information on the price of the Square Reader and Square Terminal to reflect changes since the interim report was published.

68 We have updated the information on the hardware options and their prices to reflect changes since the interim report was published.

- **POS terminal(s).** An ISO may supply one or more POS terminals to a merchant or refer merchants that want a POS terminal to a third-party POS terminal provider.

1.273 ISOs may also offer payment gateways and value-added services such as services to help the merchant certify their compliance with PCI DSS requirements and loans.

1.274 In the sections that follow, we describe the pricing of the main components of the ISOs' typical offering for brick-and-mortar merchants (as ISOs predominantly refer merchants that sell face to face to acquirers – see paragraph 1.136).[69]

Pricing of card-acquiring services

1.275 Merchants referred by ISOs nearly always have standard pricing, which is like that typically offered by acquirers and consists of several headline rates and one or more additional fees triggered by specific types of purchase transactions and/or specific events (see paragraphs 1.173 and 1.174).

1.276 Like most acquirers, ISOs do not generally publish their prices. Instead, the price they quote to a merchant is determined by the information that a sales agent collects about the merchant's characteristics during the sales process (see 1.176 and 1.178).

1.277 The structure of ISOs' standard pricing varies. In the sections that follow, we describe the standard pricing options used by five ISOs.

Handepay

1.278 Handepay refers merchants to [✂]. Handepay has one secure and one non-secure headline rate for each of the following types of purchase transactions:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

69 As noted in paragraph 1.2, the pricing information shown may reflect pricing that was in place at the time the interim report was published in September 2020. We indicate where this information has been updated.

- [✂]

1.279 [✂]

1.280 [✂]

1.281 There are additional non-transactional fees for [✂].

Paymentsense

1.282 Paymentsense mainly refers merchants to [✂]. Merchants referred to [✂] typically pay a different headline rate for purchase transactions involving each of the following card types:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.283 [✂]

1.284 There are additional transactional fees for the following types of purchase transactions:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.285 Many of Paymentsense's merchants pay an [✂] and the following non-transaction fees also apply if triggered:

- [✂]

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

RMS

1.286 [✂]. Merchants [✂] typically pay a different headline rate for purchase transactions involving each of the following card types:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.287 [✂]

1.288 [✂]

1.289 The following non-transactional fees also apply if triggered:

- [✂]
- [✂]
- [✂]
- [✂]

Takepayments

1.290 Takepayments mainly refers merchants to [✂]. Merchants referred to [✂] pay a different headline rate for a range of different types of purchase transactions including the following:

- [✂]
- [✂]

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.291 [✂]

1.292 There are additional transactional fees for the following types of purchase transaction:

- [✂]
- [✂]
- [✂]
- [✂]

1.293 There are additional non-transactional fees that apply if triggered:

- [✂]
- [✂]
- [✂]
- [✂]

- [✂]
- [✂]
- [✂]

UTP

1.294 UTP refers merchants to [✂]. Merchants pay a different headline rate for up to 11 different types of purchase transactions:

- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]
- [✂]

1.295 [✂]

1.296 There are additional transactional fees for the following types of purchase transaction:

- [✂]
- [✂]
- [✂]

1.297 There are additional non-transactional fees that apply if triggered:

- [✂]
- [✂]

- [✂]
- [✂]
- [✂]
- [✂]

Pricing of card acceptance products and PCI DSS compliance services

1.298 Depending on the ISO, there are different commercial arrangements for supplying a POS terminal to the merchant:

- Some merchants hire POS terminals from ISOs for a fixed monthly fee.
- Some merchants pay for services or membership from the ISO for which they receive a POS terminal free of charge to use in conjunction with the ISO's other services.
- Some merchants are referred by ISOs to a third-party POS terminal provider, which supplies the POS terminal(s) to the merchant. The fixed monthly fee the merchant pays for the POS terminal is generally agreed between the merchant and the acquirer or ISO that makes the referral. The contract is between the merchant and the third-party POS terminal provider.

1.299 ISOs predominantly refer merchants that sell face to face to acquirers (see paragraph 1.136) but if the merchant wants a payment gateway, it will typically pay a fixed monthly or yearly fee for a fixed number of transactions. Alternatively, a payment gateway may be supplied under a services or membership agreement (in the same way as a POS terminal – see paragraph 1.299).

1.300 Some ISOs provide services to help the merchant meet PCI DSS requirements. Such services typically attract a monthly fixed fee.

Regulatory framework, scheme rules and voluntary industry standards

1.301 In this section, we provide an overview of the regulatory framework relevant to acquirers and payment facilitators. It also provides a brief introduction to scheme rules and voluntary industry standards. Some details in this section have been updated to reflect changes that have occurred since the interim report was published.

Regulatory framework

1.302 Acquirers and payment facilitators are subject to various laws, regulations and other measures imposed by public bodies or regulators, including:

- payments legislation such as the UK IFR and PSRs 2017
- anti-money laundering and related laws
- data protection and privacy laws

1.303 This section describes the main pieces of legislation we refer to in our assessment: the UK IFR, PSRs 2017 and the Consumer Credit Act 1974 (CCA), focusing on the provisions most relevant to our analysis.

1.304 The UK left the EU on 31 January 2020. As noted in paragraph 1.18, since the interim report was published in September 2020, a set of new rules now apply to the relationship between the UK and EU following the end of the Brexit transition period. We refer to EU laws, regulations, rules and other measures where relevant.

Interchange Fee Regulation

1.305 The Interchange Fee Regulation (IFR) came into force in June 2015 (although not all the provisions came into force at the same time) and was introduced following antitrust investigations by the European Commission into interchange fees. The main objectives of the IFR are to create a single market for card payments and promote competition.

1.306 The IFR introduced caps on interchange fees on transactions involving consumer debit and credit cards issued in the EEA where the merchant's acquirer is located in the EEA. It requires that acquirers do not pay (and issuers do not receive) more than:

- 0.3% of the value of a consumer credit card transaction
- 0.2% of the value of a consumer debit card transaction

1.307 The caps came into force on 9 December 2015. The caps do not apply to cards issued outside the EEA, to commercial cards or cards issued under a three-party card payment system (except in certain circumstances).

1.308 The IFR also introduced several business rules. Most of these rules came into force on 9 June 2016. They include the following:

- Article 6, which prohibits any territorial restrictions within the EU and any requirement or obligation to obtain a country-specific licence or authorisation to operate on a cross-border basis or rules with an equivalent effect in licensing agreements or in payment card scheme rules for issuing payment cards or acquiring card-based payment transactions.
- Article 9(1), which requires that acquirers offer and charge MSCs[70] broken down for the various different categories[71] of payment cards (that is, prepaid cards, debit cards, credit cards and commercial cards) and different brands of payment cards (such as Mastercard and Visa) with different interchange fee levels. An acquirer can charge a merchant 'blended' MSCs, but only if the merchant has first requested in writing to be charged 'blended' MSCs.
- Article 9(2), which requires that acquirers' agreements with merchants specify the amount of each MSC, and show the applicable interchange fee and scheme fees separately for each category and brand of payment cards. Merchants can subsequently make a request in writing to receive different information.
- Article 12, which requires payment service providers (PSPs)[72] to provide (or make available) the following information to the merchant for each card-based payment transaction:
  - the reference enabling the payee to identify the card-based payment transaction

70 For the purposes of our market review, we use the term MSC to refer to the total amount the merchant pays for card-acquiring services. However, the IFR defines an MSC as 'a fee paid by the payee to the acquirer in relation to card-based payment transactions'. As set out in our guidance on our approach to monitoring and enforcing the IFR, we consider that one-off or periodic fees are not part of the MSC. PSR, *Guidance on the PSR's approach as a competent authority for the EU Interchange Fee Regulation* (2016, updated 2020), paragraph 5.34.

71 In the market review, we use the term 'type of card'. This is similar to, but not the same as, the term 'category of card' used in the IFR, which refers to the following four types of card only: prepaid, debit, credit and commercial.

72 The legislation that established the PSR – the Financial Services (Banking Reform) Act 2013 – has a different definition of payment service provider to that used in the IFR and the PSRs 2017. In this document, when we

- the amount of the payment transaction in the currency in which the payee's payment account is credited
- the amount of any charges for the card-based payment transaction, indicating separately the MSC and the amount of the interchange fee[73]

1.309 Following the end of the Brexit transition period the IFR has been retained in UK law and revised to focus on domestic card payments (UK IFR). We are the lead competent authority for the UK IFR. We share competency with other public bodies including the FCA for certain business rules.

1.310 The European Commission recently published its report on the impact of the IFR.[74] We have a separate programme of work – outside this market review – to monitor and enforce compliance with the UK IFR.

Second Payment Services Directive

1.311 PSD2 is an EU directive which replaced PSD1 and came into force on 13 January 2016.

1.312 The Payment Services Regulations 2017 (PSRs 2017) implement PSD2 in the UK.[75] Most of the provisions took effect from 13 January 2018. The PSRs 2017 were amended when the UK exited the EU. The PSRs 2017 apply, with certain exceptions, to everyone who provides payment services as a regular occupation or business activity in the UK (PSPs).[76] Acquiring of payment transactions is one of the services listed as a payment service in the PSRs 2017.

1.313 In this section, we summarise the provisions in PSRs 2017 relating to:

- authorisation and registration
- conduct of business requirements
- strong customer authentication (SCA)

1.314 The FCA is the competent authority responsible for authorising and supervising payment and e-money institutions under the PSRs 2017 and the Electronic Money Regulations 2011 respectively. We are responsible for certain provisions that relate to payment systems, and information to be provided by independent ATM deployers.

use the term payment service provider (PSP) with reference to the IFR, we mean PSP as defined in the IFR and PSRs 2017.

73 This information can only be aggregated if the merchant has given prior and explicit consent to the acquirer.

74 European Commission, *Report on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions* (2020).

75 Acquirers and payment facilitators passporting in to the UK will be subject to legislation that implemented PSD2 in the country in which they are authorised.

76 The legislation that established the PSR – the Financial Services (Banking Reform) Act 2013 – has a different definition of PSP to that used in the PSRs 2017. In this section, when we use the term PSP with reference to the PSD2, we mean PSP as defined in PSD2.

Authorisation and registration

1.315 A UK business that provides regulated payment services must (unless it is exempt or benefits from an exclusion) be authorised by the FCA as a payment institution (PI) or registered as a small PI. The conditions that must be met to become an authorised PI include that the applicant:

- meets specified capital requirements
- has taken adequate measures to safeguard users' funds
- has governance arrangements, internal control mechanisms and risk management procedures that meet the conditions set out in the PSRs 2017

1.316 If a business has an average turnover in payment transactions not exceeding €3 million per month, it can choose to be registered as a small PI. Small PIs can provide the same services as Authorised PIs, but handle much smaller amounts of money. As a result, there are fewer rules that small PIs need to follow.

1.317 Some businesses are exempt from registration or authorisation under the PSRs 2017 including:

- banks (otherwise authorised by the FCA)
- building societies (otherwise authorised by the FCA)
- e-money institutions (authorised under the Electronic Money Regulations 2011 by the FCA)

Conduct of business requirements

1.318 Under the PSRs 2017, all PSPs (however authorised) must comply with the conduct of business requirements.

1.319 Most relevant to our assessment are the following requirements to provide information to the customer[77] before and after the execution of a payment transaction where the transaction is carried out as part of an ongoing relationship under a framework contract[78]:

- Regulation 48. In good time before a framework contract is entered into (or immediately after the execution of the transaction if the contract has been

77 There are also conduct of business requirements relating to the rights and obligations of both PSP and customer in relation to payment transactions. These provisions are subject to the 'corporate opt-out' (see paragraph 6.92 in the final report).

78 A framework contract is a contract governing the future execution of individual and successive payment transactions (see Regulation 2 of the PSRs 2017 for the full definition). Information requirements differ depending on whether the transaction concerned is carried out as part of an ongoing relationship under a 'framework contract' or as a single payment transaction. We describe the requirements relating to the former scenario as these are most relevant to our assessment.

concluded at the customer's request by means of distance communication), the PSP must provide the customer with certain information including:

  - details of the payment service to be provided
  - details of all charges payable by the customer to the PSP and, where applicable, a breakdown of them
  - information about the length of the contract and, where relevant, customer and PSP termination rights, and the terms under which the PSP can unilaterally vary the contract

- Regulation 50. For most changes to the framework contract, or the information that has to be disclosed before the framework contract is entered into, PSPs must provide notice of any proposed changes at least two months before they are due to take effect. The framework contract may provide for proposed changes to be made unilaterally by the PSP where the customer does not reject the proposed changes before they come into force; in this case, the customer has the right to terminate the contract without charge at any time before the proposed date of entry into force of the changes.
- Regulation 51. The framework contract may be terminated by the customer at any time, unless a period of notice (not exceeding one month) has been agreed. If the contract has been running for six months or more, no charge may be made for termination. Regular service charges for the running of the payment services may be charged, but any advance payments in respect of such service charges must be returned on a pro-rata basis. Any charge that is made for termination must reasonably correspond to the PSP's actual costs.
- Regulation 54. The PSP must provide payees with the following information on transactions:
  - a reference enabling the customer to identify the payment transaction and the payer and any information transferred with the payment transaction
  - the amount of the transaction in the currency of the payment account credited
  - the amount and, where applicable, breakdown of any transaction charges and/or interest payable in respect of the transaction
  - any exchange rate used by the payee's PSP and the amount of the payment transaction before it was applied the credit value date

1.320 The obligations in Regulation 54 are complementary to the obligations in Article 12 IFR (see paragraph 1.309).

Strong customer authentication

1.321 A PSP must apply SCA in certain circumstances including for card payments (unless an exemption applies). SCA is intended to enhance the security of payments and limit fraud during the authentication process.

1.322 Under the PSRs 2017, strong customer authentication means authentication based on the use of two or more independent elements (factors) from the following categories:

- something known only to the payment service user (knowledge)
- something held only by the payment service user (possession)
- something inherent to the payment service user (inherence)

1.323 PSPs must comply with Regulatory Technical Standards (the SCA RTS) that provide detailed specifications for how the rules should be implemented.

1.324 The rules on SCA took effect on 14 September 2019. However, the European Banking Authority accepted that more time would be needed to implement SCA for e-commerce transactions given the complexity of the requirements, a lack of preparedness and the potential for a significant impact on consumers. Subsequently, the FCA agreed to extend the deadline for SCA for e-commerce transactions to 14 March 2022. By 14 March 2022, the FCA expects full compliance for e-commerce transactions.

Consumer Credit Act 1974 (as amended)

1.325 The CCA regulates consumer credit and hire agreements. The FCA is responsible for regulation of any firm or individual offering consumer credit, consumer hire or undertaking ancillary credit business.[79] The CCA applies in some cases to POS terminal hire contracts.

1.326 A regulated consumer hire agreement is an agreement for the hire of goods between the owner and an individual, which includes a sole trader or a small partnership (two or three partners which are not all incorporated) or an unincorporated body of persons (which are not all incorporated) [80], for a period which is capable of subsisting for more than three months and is not a hire-purchase agreement (as defined in the CCA). If a consumer hire agreement does not fall within one of the exemptions to the CCA, it will be a regulated consumer hire agreement.

79 The FCA took over responsibility for regulating consumer credit on 1 April 2014 from the Office of Fair Trading (OFT). As part of the transfer of regulation, Parliament repealed some CCA provisions, and some of these were replaced by FCA rules.

80 'Individual' does not include companies or limited liability companies.

1.327 Where the CCA applies, firms with regulated consumer hire agreements are subject to obligations, including pre-contract disclosure, requirements on the form and content of agreements and the provision of copy documents. The CCA provides the regulated consumer hire agreement is unenforceable without a court order where relevant pre-contractual information has not been provided[81] or where the agreement has been improperly executed.[82]

1.328 Entry into regulated consumer hire agreements by way of business is a regulated activity which requires FCA authorisation.

1.329 Where the CCA applies, the merchant has a statutory right, subject to meeting certain conditions, to terminate the POS terminal hire contract without charge by giving notice (one month, if the merchant pays monthly) after the contract has run for 18 months.[83]

1.330 A term contained in a regulated consumer hire agreement is void if, and to the extent that, it is inconsistent with a provision for the protection of the hirer in the CCA.[84]

1.331 In addition to the CCA provisions noted above (these are illustrative and not exhaustive), there are also detailed conduct of business rules in the FCA Handbook applicable to firms in respect of consumer credit/hire and ancillary credit business.

Scheme rules

1.332 In four-party card payment systems, acquirers must comply with scheme rules as a condition of their participation in those systems and are responsible for ensuring that their merchants, and the payment facilitators they work with, comply with these rules. Scheme rules govern much of the activity of acquirers and payment facilitators.[85]

1.333 Before entering into a licence agreement with an acquirer, the operator of a card payment system will undertake screening and assessment of a prospective acquirer to ensure they satisfy the operator's requirements. The screening process is designed to ensure that a prospective acquirer does not represent an undue risk to the security, safety or integrity of the card payment system.

1.334 If the application is approved by the card scheme operator, it will then sign a contract with the acquirer. The acquirer will need to undergo a process of testing and certification to ensure technical implementation is achieved so that it may successfully process transactions using the card payment system.

81 Section 55 of the CCA.

82 Section 65 of the CCA.

83 Section 101 of the CCA.

84 Section 173(1) of the CCA.

85 For the avoidance of doubt, this section describes scheme rules in general terms for illustrative purposes only and is not a comprehensive description of scheme rules.

1.335 An acquirer must comply with scheme rules. Scheme rules typically require an acquirer, amongst other things, to:

- ensure consistent expression of the relevant brand and avoid any action that may result in harm to the brand
- conduct appropriate due diligence when onboarding new merchants and refrain from recruiting merchants who deal with certain prohibited goods or services
- provide merchants with the necessary equipment and services to accept card payments
- process card transactions from authorisation through to settlement of funds
- ensure merchants comply with scheme rules including by providing training and information and monitoring merchants' compliance
- provide information required under scheme rules to the operator of the card payment system including details of third parties engaged by the acquirer
- make payments required under scheme rules, such as scheme fees

1.336 Scheme rules set out the process for investigating and addressing a breach of the scheme rules and the consequences that may follow a confirmed breach. An acquirer found to have breached scheme rules may face financial or non-financial consequences. Operators of card payment systems may levy non-compliance fees against an acquirer and require the acquirer to indemnify them against any damages resulting from the acquirer's breach of its obligations under the scheme rules. Where a breach is sufficiently serious, the operator may place restrictions on or suspend an acquirer's participation in the card payment system. In the most serious cases, the operator may terminate an acquirer's license agreement, removing its ability to participate in the card payment system.

1.337 Operators of card payment systems permit acquirers to contract with payment facilitators to provide card-acquiring services to merchants. This is subject to certain conditions, such as a requirement that an acquirer have in place a written agreement with any payment facilitators it works with. Where an acquirer contracts with a payment facilitator, scheme rules provide that the acquirer is responsible for ensuring the payment facilitator and its merchants comply with scheme rules. An acquirer is responsible for any breaches of scheme rules on the part of a payment facilitator it contracts with and the payment facilitator's merchants, and may face financial or non-financial consequences stemming from the actions of a payment facilitator. Depending on the operator of the card payment system, the acquirer may be required to register with them details of payment facilitators they contract with and, in some cases, prior written consent may be necessary before entering into such agreements.

1.338 In Annex 5, we describe and assess whether certain scheme rules may be a barrier to entry and expansion. The specific rules are described in that annex.

Voluntary industry standards

1.339 Acquirers and payment facilitators may also choose to follow voluntary industry standards such as:

- Standard 70, which defines messaging protocols for card payments between a card acceptor and an acquirer; it includes guidance on how card transactions should be processed, how merchants should interact with cardholders and receipt requirements (among other things) to meet the needs of the varying card payment systems and present a uniform cardholder experience
- the UK terminal approval scheme, which includes Common.SECC Common Criteria requirements for certifying POS terminals and card readers for security; and also accessibility and usability requirements for terminals for use in the UK in cooperation with the RNIB

Alternatives to Mastercard and Visa

1.340 We considered if there are any payment methods that are effective substitutes for card payments (focusing on Mastercard and Visa cards), such that use of these payment methods exerts competitive constraints on card-acquiring services sold to merchants.

1.341 We examined in our merchant survey, whether merchants that accept Mastercard and Visa cards could instead accept other payment methods – for example, other cards such as American Express, or bank transfers.

1.342 We found that many merchants accept cards other than Mastercard-branded and Visa-branded cards. However, cards issued under other card payment systems, such as American Express, are unlikely to represent an effective substitute for merchants that accept Mastercard-branded and Visa-branded cards because:

- our survey shows that, generally, nearly all merchants accept Mastercard and Visa but they don't always accept other card brands[86]
- together, Mastercard-branded and Visa-branded cards accounted for around 98% of all card payments at UK outlets in 2018, both by volume and value[87]

1.343 This indicates that merchants accept other cards in addition to, rather than instead of, Mastercard-branded and Visa-branded cards.

1.344 In our merchant survey, 96% of small and medium-sized merchants reported that they accept at least one other payment method in addition to cards.[88]

1.345 Our focus on card-acquiring services in this review means that our survey only sought views from businesses that already accept card payments. The preferences of businesses that do not currently accept card payments are likely to be quite different from those that do. This does mean that care is needed in the interpretation of the results in relation to other payment types.

1.346 For the merchants in our survey, card payments were merchants' preferred payment method more than any other and also the payment method that accounted for the highest number of sales: 43% of participants reported that cards were their preferred payment method and for 45% of participants, card payments also accounted for the highest volume of sales.[89] This is consistent with many merchants needing to accept

86 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 43.
87 PSR analysis of based on data submitted by operators of card payment systems.
88 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 42.
89 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 42.

card payments to run their business (although the degree of substitutability between payment methods may vary for different types of merchants).

1.347 Our survey findings also suggest that the vast majority of small and medium-sized merchants do not wish, or are unable, to influence their customers into paying with another payment method (other than a Mastercard or Visa card). Only 7% of participants had taken steps to influence their customers in this way in the last year.[90] 91% of merchants had not taken steps to influence their customers into paying with a payment method other than Mastercard or Visa cards in the last year.[91]

1.348 We also asked merchants how they would respond to a hypothetical universal 10% increase in the cost of accepting Mastercard and Visa cards. 41% of merchants stated they would continue accepting the cards but take steps to influence customers' choice of payment method (away from Mastercard-branded and Visa-branded cards); 28% stated they would continue to accept the cards and take no action; 22% stated they would stop accepting Mastercard and Visa cards altogether. [92]

1.349 We interpret merchants' reported responses to a hypothetical 10% increase in the cost of accepting Mastercard-branded and Visa-branded cards with caution because:

a. The responses are not consistent with actual current merchant behaviour set out above, which found that around 90% do not take steps to influence their customers' choice of payment method and many merchants said card payments were their preferred choice of payment method.

b. Merchants want to accept the payment methods their customers want to pay with – so they will have a strong incentive to continue accepting card payments, which are the most frequently used payment method in the UK.

c. It is well recognised that care is needed in interpreting hypothetical questions of this type and that they need to be considered in the round with other evidence.[93] In this case, as discussed above, this would include how merchants are actually behaving currently. Hypothetical questions can also be difficult for individual responders to interpret and, for example, some of the results in paragraph 1.349 above may arise from some merchants considering a 10% increase in the MSC rather than focusing on a 10% increase in the per-transaction fee.

1.350 In summary, we have not seen evidence that currently there are effective substitutes to Mastercard and Visa cards for merchants, which would exert a competitive constraint on the supply of card-acquiring services for these cards. There are a range of ongoing developments (including regulatory and technological developments) that may change the payment methods available to merchants (for instance, see final report paragraph 3.10) but they have not made any significant impact to date in retail payments.

90 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 44
91 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 46
92 IFF Research, *PSR Card-Acquiring Market Review: Merchant survey results*, slide 47
93 Office of Fair Trading, *Market definition: Understanding competition law* (2004), paragraph 3.7.

PUB REF: MR18/1.8 Annex 1

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