

Annex 11 to final report

Market review of card scheme and processing fees

Schemes' views on
market outcomes

March 2025

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

Annex 11

Card schemes' views on market outcomes

11.1 In the course of the market review, Mastercard and Visa submitted their views on market outcomes in the supply of scheme and processing services to acquirers. This annex presents the schemes' main points under three sections, focusing on their:

- high-level views on market outcomes
- views on pricing on the acquiring side
- views on quality and innovation

11.2 Our responses to the schemes' arguments are included in Chapter 6 of the final report.

Card schemes' high-level views on market outcomes

11.3 Mastercard and Visa made a number of arguments that are relevant to our assessment of outcomes in the supply of scheme and processing services to acquirers. Both schemes made submissions that covered the process and outcomes of competition that they faced, as well as outcomes across the wider payments landscape. We set out these high-level views below.

Card schemes' high-level views on outcomes for their customers

11.4 In its response to our February 2023 working paper, Mastercard set out its view that it:¹

'... generates value by boosting the economy, working for consumers and helping businesses both inside and outside the financial services sector. The value generated can be highlighted by mapping Mastercard's scheme activities against five key drivers of economic growth':

- improving payment efficiency²
- facilitating new entry – giving examples including increasing onboarding speed for new players, and 'empowering the entry of payment facilitators into the acquiring market and encouraging their growth by providing advisory support, substantially increasing the access of smaller merchants to the cards ecosystem'
- maintaining security and stability in the payments' ecosystem³
- driving innovation⁴

1 Mastercard response to PSR working paper dated 23 February 2023. [3]. See also Mastercard response to MR22/1.9 (21 May 2024), pages 52-56.

2 See paragraph 11.28, below.

3 See paragraph 11.28, below.

4 See paragraph 11.30, below.

- promoting wider benefits – for example, arguing that ‘encouraging people who did not (or could not) access electronic payments to use cards is good for Mastercard commercially, but it also benefits the wider society through the reduction of “financial exclusion” and the associated social costs’

11.5 In its response to our June 2023 working paper, Visa listed the ‘outcomes that matter most to end users’ which are the result of its ‘trusted and high-quality service’. These included:⁵

- ‘Reliable and resilient payments infrastructure’⁶
- ‘Rapid and seamless transactions’⁷
- ‘Robust payment protections and security: In addition to investments made to help prevent fraud, Visa offers robust protections for merchants and consumers against fraudulent transactions, including chargebacks, refunds, fraud prevention systems, and payment guarantees such as our Zero Liability Guarantee bringing peace of mind to consumers’
- ‘Innovative and dynamic functionality’⁸

Mastercard and Visa views on outcomes across the UK payments landscape

11.6 Both Mastercard and Visa stated that, looking at outcomes across the UK payments landscape, there is evidence of strong competition, a high level of innovation, new entry, and improved service quality – with the card schemes playing an important role in delivering those outcomes.

11.7 As part of its response to our February 2023 working paper, Mastercard submitted a report, [2], which stated that:

- ‘The market outcomes that can be observed in the UK payment landscape are consistent with a well-functioning market, characterised by existing players being competitively constrained by other existing players, new entrants and the credible threat of further entry.’
- ‘Volumes continue to shift from traditional payment methods (e.g. cash and cheque) towards more efficient methods, as players compete to expand. Certain merchant types (e.g. smaller merchants) and segments (e.g. tradespersons) increasingly have options to accept payments via more efficient methods.’
- ‘This, in part, has been made possible through continued innovation, which has improved the services provided to end-users through the whole UK payments ecosystem.’
- ‘Innovation has also been introduced directly by new entrants using new technologies and new propositions. In turn, this has driven existing players to continually develop their own propositions in order to keep a competitive position in the payments landscape. This innovation has delivered and continues to deliver good outcomes for merchants and consumers.’

5 Visa response to PSR working paper dated 30 June 2023. [2]. See also Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.8.

6 See paragraph 11.31, below.

7 See paragraph 11.31, below.

8 See paragraph 11.31, below.

- 'Furthermore, the changing payment systems landscape has led to both greater choice of payment methods and an increased quality of payment methods. Both consumers and merchants typically have a variety of options for any given payment. Although all payment methods provide a minimum level of service, they vary significantly in their product features (for instance the degree of buyer protection that is offered).'
- 'This variation in product offering is reflected in the pricing of various payment methods. The credible threat of new entry acts as a source of competitive constraint on the existing pricing of incumbents. We find that the trends observed in terms of volumes, innovation, quality and choice are consistent with the pricing of the services being provided within a well-functioning competitive landscape for UK payments.'⁹

11.8 Mastercard put forward its view on the interaction between competition, regulation and price setting in this context, noting that:

'... Mastercard must compete for both issuer and acquirer customers to be successful. However, the nature of competition in these markets is also affected by regulation. In particular, the IFR, which sets limits on the level of interchange fee that can be paid by acquirers to issuers (which essentially also represents a cap on the monetary compensation for issuers per transaction through the "net compensation" rules). This cap on compensation to issuers affects the nature of competition for issuer business whenever the net compensation cap binds, as it precludes any card scheme making a more financial offer to issuers to secure their business.'

'However, this does not mean competition is restricted in such circumstances. Instead, Mastercard looks to make its offering more attractive in other ways, including by improving the quality of its services to the benefit of issuers and cardholders. Competitors to Mastercard naturally do the same, leading to a greater focus [on] "quality and innovation" competition rather than pure price competition in certain customer segments.'¹⁰

11.9 In relation to competition and outcomes in the UK payments sector more generally, Visa submitted that:

- 'Competition in the UK payments sector is thriving' and that 'the payments ecosystem is complex and evolving fast.'¹¹
- 'The PSR's review must recognise that competition in payments is not limited to competition between card schemes ... Card payments from any scheme accounted for only a small proportion of total payment flows in the UK (approximately 13% in 2021) with payments using a Visa card accounting for an even smaller proportion (approximately 9% in 2021).'¹²

9 Mastercard response to PSR working paper dated 23 February 2023. [3].

10 Mastercard response to PSR questions dated 23 June 2023. [3].

11 Visa response to PSR draft Terms of Reference for the market review of card scheme and processing fees dated 21 June 2022. [3].

12 Visa response to PSR working paper dated 23 February 2023. [3]. See also Visa response to MR22/1.9 (21 May 2024), page 6 (first paragraph).

- 'It would not be appropriate for the PSR to assess competition in the UK payments sector with reference only to the fees charged by Visa (and Mastercard) ... (i) the UK payments sector is [a] competitive sector with many differentiated payment options, systems and products, with a wide range of players; and (ii) Visa invests significantly and continuously to develop and innovate its payment ecosystem to deliver value and ensure good outcomes for end-users.'¹³
- 'The PSR's assessment of competition should be "forward-looking".'¹⁴

Card schemes' views on pricing on the acquiring side

11.10 In this section, we set out two of the submissions that Mastercard and Visa have made in relation to our assessment of pricing outcomes. These are:

- Price levels are competitive and card acceptance costs are low.
- Visa has been transitioning from a membership model to a commercial model, resulting in changes to Visa's fees.

Card schemes' submissions that price levels are competitive and card acceptance costs are low

11.11 Both Mastercard and Visa stated that their pricing of scheme and processing services in the UK is determined by competitive pressure from a range of competing payment methods and that the cost of making transactions using their services is low, considering the cost of alternatives and the nature of the services that they provide.

11.12 Mastercard submitted that: 'the pricing of various payment methods ... reflects the variation in product offering ... The credible threat of new entry acts as a source of competitive constraint on existing pricing of incumbents. The trends observed in terms of volumes, innovation, quality and choice are consistent with the pricing of the provided services. The average fee per euro transacted paid to Mastercard has not increased significantly since 2017. Specific fees have changed reflecting improved value and service quality through Mastercard's innovation in the main features of the scheme. This results in an overall increase of mandatory acquirer fees of 3.1% p.a., on average.'¹⁵

13 Visa response to PSR working paper dated 30 June 2023. [3]. See also Visa response to MR22/1.9 (21 May 2024), page 4 and Technical Annex 2, paragraph 2.11.

14 Visa response to PSR working paper dated 23 February 2023. [3].

15 Mastercard response to PSR working paper dated 23 February 2023. [3]. See also Mastercard response to MR22/1.9 (21 May 2024), page 52; and [3].

11.13 Mastercard also submitted a report, [3], which included a comparison of the MSCs charged to an average merchant (weighted by transaction value) for different online payment methods, concluding that:

'First, the MSCs for payment cards are similar to those of the payment methods that also offer some form of buyer protection (Revolut Pay, Giropay and Klarna Pay Now, ...), all of which have similar or higher MSCs.'

'Second, payment methods that do not offer buyer protection have lower MSCs than payment cards.'

'Third, we estimate that the provision of buyer protection accounts for approximately 40–70 basis points in the MSC of a well-established payment method. If we adjust the MSCs of the payment methods without buyer protection upwards to account for this difference in functionality and service offering (or if we adjust the MSCs of payment methods with buyer protection downwards), the MSCs across the different payment methods are comparable.

'This is consistent with a well-functioning and competitive market where consumers and merchants have a wide range of payment options with different functionalities and services, with MSCs that reflect these differences.'¹⁶

11.14 Visa submitted that:¹⁷

- Its 'fees remain a small part of the overall cost of acceptance'.¹⁸
- It is 'mindful of the impact of our fees on merchants. We charge acquirers reflecting the actual use of our services based on the actual transactions that flow to them (for example, differentiating by various attributes such as F2F vs remote, or domestic vs international) and based on the precise services being utilised. Visa does not control how acquirers (and other participants in the value chain) price their services to merchants, and we do not have full visibility of the merchant pricing models that acquirers use.'¹⁹
- 'Merchants also have a wide range of options available to them and can choose which payment methods to accept or not to accept. The merchant's ultimate choices will reflect several competitive factors such as the convenience and security of the payment method, as well as the overall cost of acceptance. Merchants can also accept a large range of payment options while actively steering consumer[s] towards the payment methods they prefer.'²⁰

16 Mastercard response to PSR working paper dated 23 February 2023. [3].

17 Visa response to PSR draft Terms of Reference for the market review of card scheme and processing fees dated 21 June 2022. [3].

18 See also Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.3(a): 'These fees represent only one part (and as the IR recognises, a very small part) of the final price (i.e., the MSC) paid by merchants to acquirers'. The same point is also made in Technical Annex 7, paragraph 7.3(a), and Technical Annex 2, paragraph 2.5.

19 See also Visa response to MR22/1.9 (21 May 2024), Executive Summary, page 8: 'Visa does not control acquirer pricing to merchants.'

20 See also Visa response to MR22/1.9 (21 May 2024), Technical Annex 2, paragraph 2.5 (footnote 69) and paragraph 2.10 (footnote 77).

- 'We note that for payments made on our network, Visa's fees are a small part of the overall cost of acceptance. In the UK, Visa typically earns between just 1–2p from a domestic £30 transaction. We have also made a number of commitments in recent years to recognise differences in certain transactions via maintaining low fee levels, such as Visa's Everyday Spend Program.'²¹

11.15 Visa submitted that 'it is important to note that Visa's scheme and processing fees represent a small fraction of the overall cost for merchants to accept Visa card payments. In particular, for an average purchase (of £[~~30~~]) across all domestic transactions, a merchant pays only 2 pence in Visa fees compared with an overall estimated acceptance cost of [~~30~~], meaning that our fees make up the smallest component of the cost of acceptance for retailers on average. The scheme fees we charge for domestic transactions in the UK are among the lowest in the world, and we have further introduced initiatives in the UK As a result of this programme, for domestic consumer transactions with these merchants, Visa's core fee rates have not increased since 2017.'²²

Visa's submission that pricing decision reflected its transition from a membership model to a commercial model

11.16 Visa stated that the acquisition of Visa Europe by Visa Inc. in 2016 was an important driver of its pricing decisions in the period that followed the acquisition. It submitted that:²³

'... the acquisition of Visa by Visa Inc. in June 2016 started the transformation of Visa from being a member-owned association to a fully commercial entity – broadly speaking, away from a closed "partnership" of financial institutions and towards an open and independent commercial network. As part of this multi-year transition, Visa made several important structural changes to its core fees. Many of these changes were necessary to reflect the new commercial positioning of Visa and the competitive market in which Visa was now operating. ...

'Critically, the new commercial environment created a set of enhanced demands on Visa:

'(1) First, as a commercial business, our clients' (and their clients) expectations increased with regards to the resilience of our network. We have invested heavily in resilience to support our services, for example through the introduction of our global VisaNet network ... Globally, VisaNet has a high reliability level, with more than 99.9995% of transactions being processed properly over the past decade.

'(2) Second, and in a similar way, our clients' (and their clients) expectations have increased with regards to the security and functionality of our network. ... In this context, as a commercial entity operating in a competitive environment, Visa has had to invest to provide a safe and secure payment infrastructure with low fraud risk that meets the changing needs of its clients and end-users.

21 See also Visa response to MR22/1.9 (21 May 2024), Technical Annex, paragraph 1.3(b).

22 Visa response to PSR working paper dated 30 June 2023. [~~30~~]. Visa's UK initiatives include its Everyday Spend Programme, which applies a relatively lower rate to Visa's fees on transactions with certain types of merchants.

23 Visa response to PSR questions dated 9 November 2022. [~~30~~].

'(3) Third, moving to an open ecosystem means that different participants demand different services. Visa therefore needs to invest more than ever to support innovation to facilitate the development of new products, services, and user experiences. This includes investing in three global data centres ... and four global centres of innovation ...

'(4) Fourth, since the acquisition, Visa has had to invest heavily to enhance its channels of communication with clients. This includes among other things establishing a client facing division, [24],²⁴ who work with clients on a range of issues that help enhance and drive client performance and business growth.

'Overall, the fundamental transformation of Visa Europe from a not-for-profit member-owned association to a commercial organisation post-acquisition has resulted in major benefits to our clients, including greater access to the global scale and resources of Visa's new parent company and the benefits of Visa Inc.'s global investment programme.'

Card schemes' views on quality and innovation

11.17 In relation to the non-pricing dimensions of market outcomes, Mastercard and Visa have made a number of submissions over the course of the market review. These are:

- Fees are determined by the value of the product to customers.
- Customers have benefited from increasing quality of service and innovation.
- Scheme and processing fees are necessary to support the schemes' investments.

Fees are determined by the value of the product to customers

11.18 The card schemes stated that the value created by their services is an important consideration in their pricing decisions.

11.19 In relation to scheme fees, Mastercard submitted that 'the setting and changing of scheme fees reflect the need to support and encourage value-generating activities, and to retain a fair share of this value for Mastercard'.²⁵

11.20 Mastercard told us that it continually develops its core network and services, in a process of continual maintenance, service enhancement and innovation. These improvements and innovations are to the benefit of the ecosystem. Therefore, at times, a recalibration of fees is undertaken to reflect the investment in, and the benefits arising from, the improving nature of Mastercard's offering. Such improvements do not always come with a specific fee change because individual fees may not always be introduced and/or increased at the point at which individual improvements are made to particular services.²⁶

24 See also [24].

25 Mastercard response to PSR questions dated 12 January 2022. [24].

26 Mastercard response to MR22/1.9 (21 May 2024), page 49 (second paragraph).

- 11.21** Mastercard also submitted that there are other reasons why fees are not introduced and/or increased at the time the improvements are made either to individual products or services or to the core network. For example, Mastercard may first want to demonstrate the value of the enhancement or service to its users before increasing the fee. It may wish to take time to determine the correct level of the fee according to the level of value/usage, as it may not be a business priority to charge for a service which may initially have fairly low usage. One service improvement might not justify an increase, but five service improvements introduced over a period of time would collectively do so.²⁷
- 11.22** In any case, Mastercard told us, other than a small number of fee changes resulting from a restructuring of fees, most of the recent fee changes which the PSR has considered as part of this market review are related to service enhancements. In particular, increases in opt-in or opt-out fees observed by the PSR often took effect after the introduction of new services or improvement to existing ones.²⁸ Responding to our interim report, Mastercard observed that the PSR had acknowledged that the new optional services come with additional fees and the take-up of optional services has increased over time. Mastercard told us that this indicates that the new services are valued by customers.²⁹
- 11.23** Mastercard stated that setting prices which are a 'reflection of value' is not 'distinct from competition or addressing customer needs ... Rather, the underlying impetus of value creation is a response to competitive pressure and customer needs, with fee changes generally being considered after changes to scheme services have been embedded and demonstrated to the ecosystem.'³⁰
- 11.24** Visa submitted that it 'maintains a complex and interoperable payments system that can safely, securely, and reliably support payments, which generates high value to our stakeholders, including merchants, across the world'.³¹ In the context of fee changes, Visa submitted that 'due to the competitive environment ... we consider it important to understand client challenges and overall sentiment towards fee changes, particularly with regard to our clients' perception of our value proposition, or any risks that fee changes may pose to our clients'.³² It said that its 'central goal' was to continue to 'grow our network and to increase the value and benefits of the services we provide to cardholders, our clients and their merchants'.³³
- 11.25** Visa stated that 'pricing based in part on the value of a service ... is the essence of competition'. It added that regulators commonly refer to value when assessing the appropriateness of prices and that the FCA's Consumer Duty requires firms to perform value assessments in relation to relevant products in order to demonstrate that the amount paid by a retail customer for the product is reasonable compared to the benefits.³⁴

27 Mastercard response to MR22/1.9 (21 May 2024), page 51 (fourth paragraph).

28 Mastercard response to MR22/1.9 (21 May 2024), page 56 (third paragraph).

29 Mastercard response to MR22/1.9 (21 May 2024), page 49 (fourth paragraph).

30 Mastercard response to PSR questions dated 23 June 2023. [redacted].

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

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

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

34 Visa response to MR22/1.9 (21 May 2024), Technical Annex 6, paragraph 6.44(b).

Customers have benefited from increasing quality of service and innovation

- 11.26** The card schemes stated that the value that their services provide to merchants and consumers, and the quality of the services that they provide to customers is constantly improving. They have pointed to increased payments efficiency, system availability, analytical tools, fraud controls, etc.
- 11.27** Mastercard submitted that it continually invests in the services it offers to ensure the provision and maintenance of a strong, secure, successful payment service. This, Mastercard told us, ensures it remains attractive to cardholders and merchants and therefore to issuers and acquirers. Mastercard pointed to 'improved payment efficiency, increased security³⁵ and stability (including guaranteed payment)³⁶, innovative payment products³⁷, reduced barriers to entry, and increased sales/expansion of the customer base'³⁸ as among 'the most significant and most directly measurable value provided'.³⁹
- 11.28** Mastercard, in setting out its views on the value that it generates 'for consumers and ... businesses both inside and outside the financial services sector' pointed to a number of areas where its quality of service had been improving:⁴⁰
- Improving payment efficiency – giving examples including improving the chargeback process, and 'balancing user convenience and transaction security by introducing the Mastercard Digital Enablement Services (MDES), Mastercard's tokenisation service, which helped to reduce declined transactions in the UK by 58% in 2022'.
 - Maintaining security and stability in the payments' ecosystem – for example, 'using the latest AI technology and working alongside issuers to identify suspicious activity and provide targeted information on real-time risks' and 'investing in the latest technology (e.g. Safety Net and Cyber Secure) to protect Mastercard against cyber-attacks' resulting in 'a significant fall in UK Account Data Compromise events, from 119 cases in 2016 to 37 in 2021'.
- 11.29** Mastercard stated that innovation 'is often seen as the most important outcome of a well-functioning market' and that the UK payments landscape has seen a 'significant amount of innovation in recent years'.⁴¹

35 'Through its range of security solutions, Mastercard continuously protects the network, its transactions and data against fraud and cybercrime.' Mastercard response to PSR questions dated 12 January 2022. [35].

36 'For example, we guarantee the settlement of Mastercard transactions amongst principal issuers and acquirers. This helps enable global acceptance by providing acquirers and (indirectly) their retailers with assurance that they would receive settlement in the event that a cardholder fails to settle.' Mastercard response to PSR questions dated 12 January 2022. [36].

37 'The Mastercard scheme drives forward innovation, including activities around promoting the adoption of new technology. We foster and accelerate emerging ideas into real solutions that deliver innovative and scalable services.' Mastercard response to PSR questions dated 12 January 2022. [37].

38 'Merchants and cardholders alike benefit from higher value transactions thanks to direct access to current accounts and credit lines. Merchants therefore directly benefit from the higher profit margins linked to more and higher value transactions.' Mastercard response to PSR questions dated 12 January 2022. [38].

39 Mastercard response to PSR questions dated 12 January 2022. [39].

40 Mastercard response to PSR working paper dated 23 February 2023. [40]. See also Mastercard response to MR22/1.9 (21 May 2024), pages 52-54.

41 Mastercard response to PSR working paper dated 23 February 2023. [41].

11.30 Mastercard pointed to its role in driving innovation in the sector, for example, working 'with others to promote the adoption of new technologies and protocols such as Strong Customer Authentication (SCA)'. Mastercard also noted that its 'innovation requires substantial investment and comes with considerable risks. For example, contactless was a significant investment and commercial risk, but has driven significant benefit.'⁴² Similarly, the contactless payment system with offline transactions created for Transport for London required a huge amount of technology, modelling, support and development.⁴³

11.31 Visa listed the 'outcomes that matter most to end users' which are the result of its 'trusted and high-quality service' – pointing to:⁴⁴

- **'Reliable and resilient payments infrastructure':** Visa's payment infrastructure is highly reliable, with 99.999% processing quality. We invest significantly to achieve and maintain this level/quality of service, which ensures that transactions between merchants and cardholders are processed seamlessly. We provide 27 different ways to route transactions across our network, which combines our triple redundant global data centres with our double-redundant data networks and access servers.'
- **'Rapid and seamless transactions':** Visa card payments offer consumers speed and convenience when making payments both in person and online, with near-instantaneous authorisation of transactions giving merchants the confidence that transactions will be successful. This speed and accuracy is supported by the significant investments we have made in advanced fraud-detection technology without which digital payments would be marred by repeat credential checking and false declines. Our Advanced Authorisation services use artificial intelligence to test the likely authenticity of transactions (500+ unique attributes are evaluated per transaction in about a millisecond). Globally, the Visa group has invested over \$10 billion in technology over the last five years, including to reduce fraud and enhance network security. This has helped prevent an estimated \$25 billion in global fraud each year and has meant that incidents of fraud occur in less than 0.3% of Visa transactions for UK issuers.'
- **'Innovative and dynamic functionality':** Visa is responsive to consumer and merchant demands for increasing flexibility and innovative service offerings, and the Visa group invests in market-leading innovation to enable new ways to pay and be paid and to improve the payment experience for end users. For instance, we partnered with Lloyds Bank to launch a subscription management service that allows consumers to manage and cancel regular payments in a few simple clicks. This tool facilitated over 1.2 million subscription payment cancellations between summer 2021 and April 2022, bringing significant financial benefit to consumers.'

42 Mastercard response to PSR working paper dated 23 February 2023. [3].

43 Transcript of Mastercard meeting on 12 September 2024, page 12 (sixth paragraph).

44 Visa response to PSR working paper dated 30 June 2023. [3]. See also Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.8.

Visa analysis of the social benefits of its innovations

11.32 In response to our interim report, Visa submitted an analysis of the benefits for UK merchants and consumers of two recent innovations – contactless and tokenisation. These benefits resulted from reduced transaction times, fraud rates, and payment friction, as well as from an increase in authorisation rates. Visa estimated that:

- for contactless, benefits amounted to [£] in 2021, which is likely to [£] in 2027
- for tokenisation, benefits amounted to [£] in 2021, which is likely to [£] in 2027
- between 2017 and 2027, UK merchants and consumers will receive [£] of benefit from contactless and [£] from tokenisation, in respect of Visa transactions
- for UK merchants alone, the total net benefit from Visa's investments in contactless and tokenisation is [£]⁴⁵

11.33 Visa submitted that the 'social benefit to cost' ratio – which compares the overall benefits generated to society by the technology to the overall cost incurred by all stakeholders including Visa – shows that contactless and tokenisation generated large benefits relative to their underlying costs'.⁴⁶

Customer feedback to Mastercard and Visa

11.34 Both Mastercard and Visa pointed to the results of customer surveys they undertake in the normal course of business that, the schemes submitted, indicate that acquirers and merchants value the schemes' innovations and are satisfied with the quality of their services.

11.35 Mastercard told us that it receives regular feedback from a wide range of UK customers in its annual Voice of the Customer (VOC). For example, in 2022, [£] issuer and acquirer UK and Ireland customers participated in the VOC, with [£] respondents answering the question on innovation. Mastercard submitted that recent VOC survey results show that innovation is seen as an area of strength for Mastercard, by both issuers and acquirers. The average innovation rating from acquirers in 2022 was [£] (out of 10) – increasing nearly [£]% since 2020. The rating from acquirers was similar to the average rating from issuers ([£]).⁴⁷

11.36 Visa commissioned merchant surveys in 2019, 2022 and 2024.⁴⁸ In the 2019 and 2022 surveys, anonymous responses were collected from 2,000 and 1,000 UK SME merchants (defined as having less than 250 employees) respectively; [£] anonymous responses from UK merchants of any size were collected in the 2024 survey.⁴⁹

45 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.16.

46 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.17.

47 Mastercard response to MR22/1.9 (21 May 2024), page 59 (second paragraph).

48 Visa response to the information request dated 10 October 2024. [£].

49 Visa response to the information request dated 10 October 2024. [£].

11.37 Visa told us that evidence from merchant surveys it commissioned demonstrates that merchants derive significant value from Visa's investments and that service quality has been improving. Visa commissioned an external party to conduct merchant surveys in 2019, 2022 and 2024 to collect UK merchants' views on payment networks generally and on Visa. These surveys covered a range of merchant types, with a particular focus on small and medium-sized enterprises (SMEs). Visa stated that:⁵⁰

- a. '71% of merchants surveyed in 2024 considered that the UK electronic payments system is working well, up from 68% in 2022 and 61% in 2019.'
- b. '85% of merchants surveyed in 2024 agreed that Visa is trusted by customers.'
- c. '70% of merchants surveyed in 2024 agreed that cards are the easiest way to accept payments, up from 67% in 2022 and 63% in 2019.'
- d. '90% of merchants surveyed in 2024 agreed that Visa ensures payments are secure, up from 83% in 2022 and 80% in 2019.'
- e. '83% of merchants surveyed in 2024 agreed that Visa combats fraud well, up from 77% in 2022 and 63% in 2019.'
- f. '69% of merchants surveyed in 2024 considered that card payment technology is constantly changing and improving, up from 61% in 2019.'
- g. '76% of merchants surveyed in 2024 considered that Visa is innovative, up from 68% in 2022 and 41% in 2019.'
- h. '77% of merchants surveyed in 2024 considered that Visa provides good value for money, up from 74% in 2022 and 49% in 2019.'

11.38 Visa also conducts a Global Client Engagement Survey. Of the [3] clients surveyed in 2023, Visa told us it identified [3] acquirers with a focus on UK activity. Visa calculated a Net Promoter Score for this client segment at [3]. This means that within this group, [3]% of acquirers were promoters (rating Visa on average very positively [3]), [3]% were passive (rating Visa on average [3]) and [3]% are detractors (rating Visa on average [3]).⁵¹

50 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.11. Underlined emphasis in the original.

51 Visa response to the PSR letter dated 22 June 2023.

Scheme and processing fees are necessary to support the schemes' investments

- 11.39** In their submissions, both Mastercard and Visa refer to the importance of their fees to support and incentivise their investments.
- 11.40** Mastercard submitted that 'the setting and changing of scheme fees reflect the need to support and encourage value-generating activities'.⁵²
- 11.41** Visa submitted that its 'scheme and processing fees are necessary to support its significant investments to improve the "quality, efficiency and economy" of its payment system – including significant ongoing investments in innovation and related risk-taking'.⁵³ Visa told us that '[b]uilding and maintaining trust is at the heart of [its] commitment to innovation and investment, with Visa having invested £7 billion over the past five years'.⁵⁴ Visa submitted that '[t]hese investments take place against the backdrop of a rise in the prevalence and sophistication of threat actors, requiring increasing investment to maintain the same high standard ... Absent these investments, it is likely that service quality would decline and that this decline *would* be noticeable to end users'.⁵⁵
- 11.42** As part of its analysis of the benefits for UK merchants and consumers of contactless and tokenisation (see paragraphs 11.32 to 11.33), Visa estimated that the social internal rate of return (IRR) from contactless and tokenisation significantly outweighs Visa's private IRR.⁵⁶ Visa submitted that this points to a heightened risk of unintended consequences from regulatory interventions which have the effect of dampening private innovation incentives.⁵⁷ Visa told us that this can be seen from the slower pace of development of domestic card schemes charging low fees, which introduced technologies later and even then, only in response to competitive pressure from innovators like Visa. In particular, Visa told us that eftpos (Australia), Girocard (Germany), Dankort (Denmark) and BankAxept (Norway) introduced contactless payments several years after Visa.⁵⁸

52 Mastercard response to PSR questions dated 12 January 2022. [3].

53 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.14.

54 Visa response to MR22/1.9 (21 May 2024), page 2.

55 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraphs 3.9-3.10. Italicised emphasis in original.

56 We note, however, that Visa's private IRR [3]. Visa response to the MR22/1.9 (21 May 2024), footnote 144.

57 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.17.

58 Visa response to MR22/1.9 (21 May 2024), Technical Annex 3, paragraph 3.21.

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