

Market review into the supply of
card-acquiring services

Responses to the approach to
the merchant survey
consultation

September 2019

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

Association of British Travel Agents

Market review into the supply of card acquiring services Consultation on the approach to the merchant survey May 2019

This response is submitted on behalf of ABTA – The travel association.

ABTA was founded in 1950 and is the largest travel trade association in the UK, with almost 1,200 members operating from over 4,500 locations. Our Members range from small, specialist tour operators and independent travel agencies specialising in business and leisure travel, through to publicly listed companies and household names.

Annually, ABTA Members' turnover is in excess of £38 billion. ABTA's focus is ensuring that Members can operate their businesses in a sustainable and successful manner, enabling their customers to travel with confidence.

Introduction

ABTA welcomes this chance to provide comments and input, and strongly supports the PSR's intention to conduct the proposed merchant survey.

As you will be aware, ABTA has proactively engaged with officials at HM Treasury and the PSR in relation to the problems caused for travel businesses by the UK's implementation of the Interchange Fees Regulation (IFR), and the EU's Second Payment Services Directive (PSD2). We intend to undertake a further consultation process with ABTA Members on the costs of taking credit and debit card payments, in order to get updated information and data on the impact of recent regulatory changes on the industry. We will gather responses from the travel industry and share these with the PSR in due course.

ABTA believes the failure to adequately consider the perspective of merchants, and particularly SME businesses, when legislating in this area, has resulted in a regime that fails to meet the needs of merchants, and also fails to serve the best interests of consumers. As a result, ABTA supports the proposal for this survey to focus on how card-acquiring services are working for merchants, and especially welcomes the intention to look at broader factors, including barriers to switching between suppliers beyond pricing and merchant awareness levels when it comes to market competition.

ABTA also agrees with the intention to focus the review on an analysis of card-acquiring services for payments managed through the schemes of Mastercard and Visa. These companies are by far the largest providers, as ably demonstrated by the statistic provided within the paper that these schemes accounted for over 98% of all card payments in 2017.

A number of ABTA Members have reported significant increases in the cost of taking card payments in recent years, and many have reported that their acquirers have indicated, upon questioning, that rising Scheme Fees are an important factor in these cost increases. Whether this is a correct assertion or otherwise, it highlights the difficulty merchants have in accurately assessing the rationale for cost increases, or to develop a full understanding of their charges. This appears to be the result of acquirers having no obligations to provide clear, unambiguous, detail on other fees within the payments chain, including both the Scheme Fee and their own charges. While we recognise the limitations imposed by the terms of reference for this survey, ABTA continues to

believe that any truly effective review must consider the entire payments chain, including an assessment of each element of the merchant service charge.

In addition, ABTA also believes that an assessment of whether existing levels of fees are justifiable will also be an important part of any longer-term solution. ABTA believes urgent consideration must be given to bringing forward a review to examine scheme fees as a standalone, but closely connected, matter, alongside that of acquiring services. In the absence of clearer communication between acquirers and merchants on this matter, we will continue to urge the PSR and Government to consider undertaking this activity.

Do you agree with the proposed research objectives set out in Chapter 2 (Research objectives)? If not, why not?

ABTA agrees with the proposed research objectives.

Research conducted by ABTA demonstrates that more than half of travel companies are facing higher costs than they were in 2015, prior to the implementation of IFR. This is especially true for SMEs within the travel agency community. The failure of IFR to reduce the cost of taking payments was recognised by HM Treasury when implementing PSD2, and as a result this legislation had a greater impact than had been anticipated. Once again this is especially true for travel, and the agency community particularly, as the industry is considered to have a higher than average risk profile, and experiences high average transaction values. As such, travel businesses are still facing sizeable costs for the processing of card payments. ABTA also uncovered serious transparency issues within the payments chain.

We believe the survey should be as broad as possible, and should seek to examine not only cost implications of the IFR, but also other matters including the factors that determine assessments of risk, and compliance levels and approaches adopted in relation to the provision of information to merchants.

Do you agree with the methodology proposed in Chapter 3 (Survey methodology)?

Again, ABTA broadly agrees with the survey methodology.

We are keen to do all we can to support the survey, and would be willing to support efforts to disseminate this to merchants within the travel industry. Please do not hesitate to get in contact if this is of interest.

More information:

Please contact

[Redacted contact information]

British Retail Consortium (BRC)

BRC response to PSR consultation: Card Market Review – merchant survey

June 2019

Introduction

- 0.1 The British Retail Consortium (BRC) is the trade association for the entire retail industry, the UK's largest employer, with a membership accounting for half of UK retail by turnover. Our diverse industry spans large multiples, independents, high street and out of town retailers, from online to bricks and mortar, selling goods across all sectors to increasingly discerning consumers.
- 0.2 All BRC members have an interest in the payment system as end users, in fact retailers are one of the most significant end user groups, processing more than 50 million transactions per day and around £366 billion per year for products & services sold in store, online & over the phone. A priority for the BRC has therefore been to ensure an innovative, transparent and competitive payments market for all retail end users and their customers.
- 0.3 The BRC held a meeting for members on 5th June and a call on 12th June to discuss the Market Review and the merchants survey, alongside a request for written input.

1 Do you agree with the proposed research objectives?

- 1.1 **Research objectives:** The BRC is generally supportive of the proposed research objectives of the merchant survey. Other areas the PSR may wish to explore in the merchant survey that the BRC have found to be of concern to smaller merchants in negotiating with card-acquirers and payment service providers (PSPs) include:
- a) **contractual terms**, whereby Service Level Agreements (SLAs) are stacked in favour of the acquirer with little or no scope for merchants to negotiate
 - b) **adjustments**, whereby these are made swiftly when they work in the acquirers' favour (such as the fulfilment of certain transaction categories or passing-on additional costs such as increased scheme fee inputs), whilst adjustments are rarely made at all when they would work in the merchants' favour (such as reduced interchange fee inputs)
 - c) **blending**, whereby acquirer pricing structures do not differentiate between regulated and non-regulated categories, and their associate fees
 - d) **charges**, whereby SLAs make it difficult for merchants to challenge charges imposed on them
 - e) **PCI fees**, whereby merchants are required to pay monthly PCI fees even where PCI compliance criteria are met internally
 - f) **complexity**, whereby pricing structures and sales & marketing practices make it difficult for merchants to benchmark costs without expensive expert analysis
 - g) **bundling**, whereby the packaging of payment services leads to a lack of transparency or visibility in service-provision, hidden and inflated costs for merchants, and creates difficulty for merchants in negotiating the best prices (similar to telco services, where long contract pricing models for hardware often incur higher costs for end-users)
 - h) **contract length**, whereby merchants locked into contracts for extended periods of time are more likely to lose out on favourable terms or adjustments

2 Do you agree with the proposed methodology?

2.1 Knowledge & understanding: The BRC is generally supportive of the PSR's proposed methodology for the merchant survey. There is some concern among members that SME representatives may lack understanding of the workings of the payments industry, the terminology involved and/or have a limited ability to fully respond to the survey. The BRC acknowledge that the PSR are taking steps to mitigate against this with steps such as those set out in 3.6. A further suggestion is proposed to the strata set out in section 3, to distinguish between SMEs of differing sizes whereby larger SMEs may well have very different experiences or greater knowledge and understanding of the payments industry than much smaller operators within the SME category.

3 General comments

3.1 Consultations: Members have raised concern over the capacity for end-user groups to engage in a granular consultation process and suggested that this exercise favours PSPs with a greater capacity to engage at this level. The number of consultations were also seen as an impediment to the speed of the Market Review process.

3.2 Market Review Scope: The BRC continue to be disappointed over the scope of the Market Review, specifically the exclusion of "rules that card scheme operators set or the fees they charge to acquirers, and whether these are excessive or justifiable" (ToR, p11).

For further information

[REDACTED]

Global Payments

GLOBAL PAYMENTS' RESPONSE TO THE PAYMENT SYSTEMS REGULATOR'S CONSULTATION ON THE APPROACH TO THE MERCHANT SURVEY MAY 2019

1. Introduction

- 1.1 GPUK LLP trading as Global Payments ("GPUK") welcomes the opportunity to comment on the Payment Systems Regulator's (the "PSR") consultation on the approach to the merchant survey ("Consultation") launched as part of the PSR's market review into the supply of card-acquiring services in the UK.

2. General Comments

- 2.1 GPUK welcomes the PSR's statement at paragraph 1.6 of the Consultation that it plans to invite stakeholders' views on the merchant survey questionnaire. In particular, GPUK welcomes the PSR's intention to share the draft questionnaire with stakeholders.
- 2.2 GPUK would request that the PSR provides stakeholders sufficient time to comment on the questionnaire, particularly if the draft questionnaire is shared during the summer holiday period.

3. Substantive Comments

- 3.1 GPUK recognises and welcomes that the PSR has taken great care in ensuring that the aims and methodology of the merchant survey are transparent and only has a small number of substantive comments on the proposed methodology.

- 3.2 In particular GPUK considers that the merchant survey should:

- 3.2.1 cover not just actual switching and ease of switching by merchants, but also explore and ask about merchants exercising credible threats to switch both at the end of and during the lifetime of a contract. GPUK consider that this is an important omission given that, in its experience, threatening to switch is an important way in which merchants exercise buyer power;
- 3.2.2 assess the extent to which merchants are assisted by third parties (e.g. ISOs or brokers) when choosing an acquirer or understanding information about product and/or services available to the merchant. In that regard GPUK considers that it is important that the sample frame captures merchants that are served by the traditional acquirers but have their contractual relationship with an ISO;
- 3.2.3 provide a clear definition as to what counts as a "risky industry" and clarify whether there is a standard definition of "industry". GPUK considers that it is not clear how the focus on this type of merchant fits in with the stated objectives of the survey.

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GPUK would like to thank the PSR for the opportunity to raise these comments, and would be happy to speak to the PSR on the comments if needed.

Kind regards

[Redacted signature]

[Redacted text]

[Redacted text]

Global Payments

[Redacted text]

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Handepay

From: [REDACTED]
To: cards@psr.org.uk
Cc: [REDACTED]
Subject: MR18/1.4 - Consultation on our proposed approach to the merchant survey
Date: 13 June 2019 16:40:16
Attachments: [image001.jpg](#)
[image002.png](#)
[image003.png](#)

Good afternoon,

Our feedback with regards to the market review into the supply of card acquiring services is as follows: -

- Some of the language used may not be relevant to the target market. For example, 'card acquiring services', in our opinion, could be known as 'card payment providers', 'card machines', 'card terminals' or 'merchant services' by merchants.
- A question we feel should be asked is: "what's important to you when choosing a card payment provider?"
- We have some concerns around point 3.7 and the size of the businesses you will be surveying. If the majority of the businesses are at the higher end of the turnover stated we feel that this won't give a true representation of the UK market. Also you don't reference the minimum turnover you will survey. We suggest business size could be split into turnover bands to achieve a true representation.
- Consideration needs to be given to who from the business will be completing the survey i.e. there will be a difference between speaking to the business owner and a purchasing department, for example.
- In reference to table one, the percentage of high risk businesses should be relevant to the UK market.

I have found this document to be a very interesting read and look forward to the next stage.

Kind regards,

[REDACTED]

Mastercard

Mastercard response to PSR *‘Market review into the supply of card-acquiring services – Consultation on the approach to the merchant survey’*

13 JUNE 2019

Introduction

Mastercard supports the PSR's proposal to undertake a merchant survey, welcomes this consultation regarding the methodology and looks forward to a subsequent consultation on the detail of the questionnaire.

The nature of this market review dictates that the views of merchants are paramount, as they are the principal purchasers in the market in which the PSR is investigating the effectiveness of competition. But despite their importance, only a very small minority will choose proactively to communicate their opinions to the PSR, directly or even through trade associations.

As a telephone survey is therefore the only available means of gathering those views, it is incumbent on the PSR to ensure that the full spectrum of merchants is included within it. Merchants across different sectors will make different choices concerning their preferred payment methods, because of the particular features of the products/services which they provide. Those differing payment choices will drive different opinions on the questions which the PSR is seeking to understand and specifically their demand for card-acquiring services.

As we outline throughout this response, the range of merchant views, may be much more varied than the PSR readily acknowledges. We understand that the PSR has generally heard the views of high street retailers and it recognises that the size of the retailer may drive different opinions, as well the proportion of its payments which are face to face or ecommerce. But the market is far more complex than those simple distinctions suggest and many merchants do not operate on the high street or the ecommerce equivalent.

If the PSR is truly to understand the diversity of views of all those who accept payments, it must go to lengths to ensure that they are represented in the survey and not simply assume that they will be, purely by virtue of the largest acquirers market share of transactions, which as we explain, may be very different to their market share of merchants. If it does not do so, it risks creating an unintended bias in its survey, negating its reliability and the robustness of its conclusions.

The PSR should also take the opportunity to ask selected merchants the widest range of questions to inform its understanding of the market. As currently outlined, Mastercard believes that the scope of the issues on which the PSR is seeking views is unnecessarily limited and will not permit or encourage them to provide opinions on broader issues related to the card-acquiring market. In particular, it appears that the PSR intends to ask merchants only about current views of payment acceptance and not how their opinions might change as the market develops and new payment options become available.

Research Objectives

Research Scope

Mastercard recognises that the proposed research objectives broadly reflect those contained in the Terms of Reference, although it appears that they may be somewhat narrower in scope. This narrowing might unnecessarily limit the PSR's understanding of merchants' views on relevant issues. In particular, we believe that the PSR could usefully seek their views on some of the wider questions related to card-acquiring services, even where they may appear to be more directly relevant to the acquirers themselves.

For example the research objectives might include the PSR's questions on: how the supply of card-acquiring services may differ across broad types of merchants; and the scope for differentiation and innovation in the supply of card-acquiring services.

Understanding the nature of merchant switching providers of card-acquiring services is obviously a key objective of this research, but again it appears as if the PSR might be taking a narrow view. Whilst it is proposing to investigate merchants' barriers to accessing information, assessing their own needs and switching acquirers, we believe that there are a wider range of factors which could usefully be included. For example:

- the reasons for (and frequency of) decisions to choose/switch acquirer e.g. the relative importance of price, quality of service, fee transparency or support
- proportion of merchants who considered switching acquirer, but did not do so and the reasons for that choice
- whether merchants believe that there is sufficient competition and differentiation between acquirers to justify switching
- whether merchants prefer to receive a full acceptance solution (acquiring, gateway, terminals etc) from their acquirer
- what types of payment methods are accepted/preferred by different merchants and for what reasons

Investigating these issues, would give the PSR a more rounded understanding of how merchants view card-acquiring, which is important in the context of the PSR wanting to incentivise a more active and competitive market.

Alternatives to card-acquiring

Mastercard understands that the PSR wants to investigate the extent to which card-acquiring services are subject to competition from other forms of payment service. Whilst important within the context of a market review, it is an issue which might not be readily understood by all merchants and therefore needs to be positioned accurately, in order to obtain robust results.

In responding to this issue in the draft Terms of Reference, we outlined two points, which we believe remain valid:-

- the market review must be forward-looking and therefore a merchant survey may not be the appropriate way of assessing merchants' ability to steer consumers' choice of payment. If the PSR does want to explore this in the survey, it must ask about their future intentions regarding payment acceptance methods, not merely their current views

- card-accepting merchants are an extremely diverse group and therefore the PSR must ensure that it obtains the views of a broad and representative sample, amongst whom there may be significantly differing views on payment acceptance methods.

We address the second point in greater detail in the following section on survey methodology, but first comment here on the forward-looking nature of the review.

As we highlighted in response to the draft Terms of Reference, the introduction of open banking is likely to have an impact on the card-acquiring market. Its recent implementation means that the responses provided by merchants are unlikely to consider the impact of the initiative. As a result, the response which a merchant may give now to the question of whether there are credible alternatives to card-acquiring services, may be very different to the response which would be given just 2 or 3 years later.

A market review is required to be forward-looking, ensuring that any findings and remedies are relevant not only to the market as it is now, but also how it may be expected to develop over a timeframe of at least 3 to 5 years. So at the simplest level, the PSR must investigate not merely whether merchants now have the incentive and ability to steer their customers' choice of payment method, but whether they are likely to do so in the future.

Mastercard recognises that many SME merchants may have a limited understanding of the nature and benefits offered by open banking and therefore the questionnaire must be designed in such way to provide them with a simple overview of how direct bank payments will work, before asking about the attractiveness of those types of payments methods. Without insight into to how merchants may view developing payment options, the PSR will be unable to form a robust view of the market, upon which to base its findings. It will be constrained by a short-term understanding, which will not allow it to develop any longer term approach towards incentivising effective competition.

The issue of steering raises additional challenges, which the PSR must address, because it may not be something to which most SME merchants give significant consideration. The introduction of the surcharging ban in January 2018 removed the most obvious prior means of steering and merchants may not yet have fully developed alternative options. It is unclear from paras 2.6 and 2.7 how the PSR intends to present these questions and to what level of detail, but we believe that it should do so broadly.

In particular, it will be important to understand all existing possible means of steering (even if merchants might not always think in those terms) and the impact which they have on consumers' choice of payment method. For example, the PSR should investigate the manner in which payment methods may be presented on websites, potentially presenting some more prominently or as default options. This might appear subtle, but in order to understand merchants' ability to steer effectively, the PSR will also need to understand consumer behaviour and the extent to which it might be impacted by merchants' activity. If this is not possible with the limitations of a merchant survey, the PSR will need to consider how else to develop this insight.

Survey Methodology

Approach to the design of the sampling frame

Card turnover vs total turnover

The PSR's proposed sampling frame comprises merchants with a card turnover of below £28 million. This turnover level is calculated on the basis of UK Finance data that 78% of all retail payments are card payments and therefore a merchant with a card turnover of £28 million will have a total turnover of £36 million. However, the UK Finance report makes clear that its definition of the retail sector is limited and focussed primarily on high street merchants. It explicitly excludes all forms of entertainment, travel and services, which include numerous types of card accepting merchants.

Mastercard highlighted in response to the draft Terms of Reference a concern that the PSR is equating 'card accepting merchants' with 'high street retailers', although in reality the former is a much broader and more diverse category with a wide range of views. We address this point in further detail below. We understand that the PSR's proposed sampling frame will include merchants beyond those which fall within the UK Finance definition of the retail sales sector, and as such, could reflect this wider view of card accepting merchants. However, the PSR should recognise that card turnover may be a very poor proxy for total turnover (merchant size), when considering merchants outside the traditional 'high street' category. This is because the payment acceptance profile of those non-high street merchants may vary considerably, making this approximation for size inappropriate.

By way of illustration, an ecommerce only merchant with a card turnover of £20 million may have a significantly smaller total turnover than a high street retailer which also has a card turnover of £20 million, but who generates revenue from other payment sources (e.g. cash). This retailer may in turn have a significantly smaller total turnover than a telecoms or financial services provider with a card turnover of £20 million, the last of which may well not be an SME by any reasonable definition. By adopting an overly simplistic view of the correlation between card turnover and total turnover, the size of merchant included in the sampling frame will be significantly impacted by the type of product/service they offer, because that will impact the volume of card payments which they accept.

This will potentially distort any comparison between the views of ecommerce-only merchants and face-to-face-only merchants, because those in the former category could potentially be significantly larger than those in the latter category, despite having an equivalent card turnover. Similarly, between different sectors, merchants of differing size will be included within the sampling frame. As a result, in circumstances in which the views or experiences of merchants in certain sectors differ significantly from those in others, there is risk that some merchant types (and therefore views) will be over or under represented in comparison with others.

Acquirer merchant profile

The PSR's proposed sampling frame comprises all active merchants (below the turnover thresholds referred to above) of the largest five acquirers (or a subset of payment facilitators), which the PSR believes account for approximately 90% of UK card transactions, but not necessarily merchants. We believe that two issues arise, of which the PSR should be mindful.

Firstly, it is highly likely that the 90% transaction market share of the largest five acquirers is heavily influenced by the fact that those acquirers acquire the largest high street retailers, whose transaction volumes are considerably greater than those of almost any other UK merchants. As a result, we would expect that the largest five acquirers may well acquire significantly fewer than 90% of all UK merchants.

Secondly, the turnover of those largest high street retailers (which are responsible for generating the 90% card transaction volume) will be above the PSR's proposed threshold and therefore be excluded from the sampling frame, in any case. This means that the largest five acquirers will be acquiring an even smaller proportion of the PSR's target SME merchants, than they are of the total of all merchants.

In addition, the PSR must also consider the customer profile of the five largest acquirers and assess whether it is sufficiently representative of the merchants which should be included in the final sample. The issue in this case is not the size of merchant, but rather the sector in which they operate. The PSR will know that the customer profiles of acquirers can differ considerably, which is often a consequence of their corporate history or how they have acquired customers e.g. through existing banking relationships, particular sales techniques or targeting specific emerging sectors. This can result in some fairly stark differences of customer mix, which risk excluding some merchant sectors entirely from the sampling frame, if they are not acquired by the five largest acquirers.

As we outline further below, merchants in these different sectors have very different payment acceptance profiles and specifically demand for card-acquiring services of Mastercard and Visa. In particular, their acceptance of alternative payment methods will vary considerably by sector and will depend on a wide variety of factors which we outline below in relation to the approach to sampling. But regardless of the reason for a merchant's choice of (preferred) payment acceptance methods, that choice is likely to generate markedly differing views on each of the questions which the PSR is investigating.

The degree to which payment facilitators may add to the proportion of merchants included in the sampling frame is unclear. At para 3.10b, the PSR says only that it is evaluating which payment facilitators' customers should be included, although it does not even specify which payment facilitators themselves are included. As payment facilitators overall market share is currently small, it may be unlikely that their customers will add significantly to the sampling frame, but we would welcome further clarification from the PSR.

In order to ensure that the results of the merchant survey are robust, it is therefore critical that the PSR ensures that the full spectrum of merchants' views (not just those of high street retailers) is included in the sampling frame. It must actively work with the acquirers to investigate, measure and test whether this is the case and not simply assume that all merchant types are necessarily represented in the 90% of transactions acquired by five acquirers. As we discuss below, the PSR must also ensure that the same spectrum of merchants' views is included within the approach to sampling, even if the absolute number of each type of merchant may be smaller than that of high street retailers.

Identification of merchants

The PSR's proposed sampling frame comprises all active UK merchants with a card turnover below the relevant thresholds, that were customers of the largest five acquirers (or a subset of payment facilitators), with the intention that this encompasses the majority of all UK SME merchants. The PSR notes that it would be disproportionate to obtain customer information from every acquirer of UK merchants, but it is not entirely clear how it will identify

relevant merchants and specifically whether the five largest acquirers will be required to provide details of all of their customers beneath the relevant card turnover threshold.

If that is not the case, further clarification is required, particularly regarding any ability of the acquirers to select which customers' details to provide to the PSR. As we have outlined above, it is vital to ensure that the full range of merchants is included in the sampling frame, which naturally requires that none can be actively or intentionally excluded.

In any case, in order to achieve 1,200 merchant interviews, the PSR will likely require the sampling frame to be as large as possible. Mastercard agrees that a sample of 1,200 merchants is essential in order to obtain reliable results, particularly in view of the need to ensure that all merchant types and sectors are adequately represented. Indeed, as we outline below, we believe that the PSR should set a minimum sample sizes for each stratum.

However, it may be challenging to achieve this level of engagement amongst SME merchants. Does the PSR believe that the survey can be reliably conducted with fewer than 1,200 merchants and if so, what level would it regard as a minimum? What strategy will it adopt to increase the level of merchant responses, if the level of engagement is lower than required and ultimately what will it do if the response rate is inadequate?

Finally, the PSR must consider how to identify who within each merchant is the appropriate person to respond to the survey. It is unlikely that these details will be contained within the contact details provided by the acquirer, but it is critical to maintaining the reliability of the survey, particularly as many of the questions are likely to require insight from the relevant decision-maker. The areas which the PSR wishes to investigate are very specific and so in any SME, there will be a very small number of people able to respond to this survey. How will the PSR test and ensure that the market research agency identifies the correct person, in order to maintain the integrity of the results?

Approach to sampling

Stratified sampling

Mastercard supports the PSR's use of stratified sampling, for the reasons which it outlines in para 3.14. However, we believe that the number of merchant groups identified by the PSR is too limited and risks not adequately addressing its research objectives, by excluding certain merchant sector views, particularly in relation to whether merchants have credible alternatives to card-acquiring services for Mastercard and Visa.

Whilst the distinction between ecommerce and face to face merchants is clearly critical, it is only one of the systematic differences between specific merchant groups which the PSR should be investigating, if it wants properly to understand merchants demand for card-acquiring services. In this context, it is important to note the distinction between a merchant's preferred payment method (which differs most obviously between online and instore, but is unlikely to differ between different merchant sectors) and the factors which influence a merchant's (preferred) payment acceptance methods (which may differ considerably between different merchant sectors).

It is unclear if the PSR has access to any additional database to help inform its understanding of different merchant characteristics, or if they are relying solely on data responses from the acquirers/payment facilitators (and points raised in response to the draft Terms of Reference). The ability to design and implement a stratified sample depends on understanding these characteristics, which Mastercard believes are many and varied and include:-

- average transaction value
- proportion of transactions which are one-off versus recurring
- proportion of transactions which are cross-border versus domestic
- volume of transactions/instore footfall
- importance and volume of refunds
- incidence of fraud and benefit to the merchant of a payment guarantee
- delivery/provision terms of product or service
- level and type of competition to which the merchant is subject
- type of consumer purchasing the merchants product/service and their demand to use a particular payment method

A merchant will (even if subconsciously) consider all of these factors when deciding which payment methods to accept and potentially which to steer its customers towards. Logically, those decisions will be similar within merchant sectors and differ between them. But it is their attitudes towards card-acquiring services which underlie those decisions of merchants in each sector that the PSR will need to investigate, in order to answer the questions set out in its research objectives. Therefore, the PSR must ensure that all sector views are represented within its stratified samples.

Relevant strata

In considering what may be the relevant strata to adopt, we reiterate the points previously made about the importance of ensuring that the full spectrum of merchant types and views are included, for the reasons which the PSR has outlined in para 3.14. It is clear, therefore, that the proposed merchant groups listed in para 3.23 are inadequate to achieve this objective.

Whilst Mastercard does not believe that it is necessary to establish separate merchant groups for each of the factors have listed above, the PSR needs to go further into defining more specific merchant groups or risk excluding the views of a range of merchant sectors which may not be adequately represented in the broad groups proposed. It may be possible to use merchant category codes to do so, but it requires more detailed work to match them to types of merchants with different payment acceptance profiles and therefore opinions on card-acquiring services. We would be happy to assist the PSR with this work.

In addition, there are a number of more specific points in the PSR's approach to deciding the relevant strata:-

- The PSR has identified "*merchants in high risk industries*" as a separate group, but has given no indication as to the basis of this assessment and therefore which merchants would be included within the description. Whilst Mastercard has previously provided some information to the PSR on our interpretation, we have no clarity as to how the PSR intends to proceed. Without this understanding, it is not possible to comment on the appropriateness or relevance of the categorisation.
- In any case, the allocation of a third of the total sample to this category is very likely to be excessive. Whilst these merchants represent an important sector with a particular payment acceptance profile, it is relatively small and certainly not a third of all merchants. In view of our comments that the PSR should be specifying a larger number of merchant groups, this sample size could be significantly reduced.

- The PSR states at para 3.25 that it has not set a minimum sample size requirement for each individual stratum. Mastercard believes that this is not in line with best practice, as the CMA recommends¹ a minimum sample size of 100 and where that is not achieved, less reliance can be placed on the results.

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

¹ CMA Good practice in the design and presentation of customer survey evidence in merger cases. May 2018 – paras 2.31-2.32

Stripe

Response from Stripe:

**PSR market review into the supply of
card-acquiring services - consultation
on approach to merchant survey**

13 June 2019

1. Introduction to this response

Stripe is a global technology company that builds economic infrastructure for the Internet. Businesses of every size – from start-ups to public companies – use our software to accept payments and manage their businesses online. We are a participant in the broader technology ecosystem for payments and build tools for developers that enable entrepreneurship and stimulate innovation in the UK's Internet economy.

We welcome the ongoing market review that the PSR is undertaking on card-acquiring services and in this response set out our thoughts on certain aspects of the proposed approach to the merchant survey to be undertaken as part of the market review ("Proposed Approach"). We first provide a brief overview of our business (see section 2). We then set out some observations on the methodology underlying the Proposed Approach (see section 3).

2. About Stripe

Stripe launched in 2011, and is headquartered in San Francisco. We employ more than 1,800 people globally, with more than 200 people based in Europe in our offices in London, Dublin, Paris and Berlin. Our mission is to increase the GDP of the internet. We believe that enabling more commerce online is a problem rooted mainly in code and design, not finance.

Our founders, Patrick and John Collison, had first-hand experience of the difficulty of accepting online payments in an earlier business they had launched: while most other aspects of building and launching an online business had become easier, online payment services remained dominated by clunky legacy providers. It seemed clear that there should be a developer-focused, instant-setup payment platform that was scalable to support a business of any size. Stripe was formed to solve this problem.

Our payments platform enables online businesses to accept payments from a range of methods including card schemes, digital payment methods and mobile wallets. It also

allows our customers to make payments out to third parties. In addition to our payments platform, we also offer billing tools allowing online businesses to manage recurring payments. Other Stripe services include business analytics, internet business set-up tools, fraud protection, and a card issuing platform.

We process billions of pounds a year for hundreds of thousands of businesses, from newly launched FinTech start-ups like LendInvest and Nutmeg, to established listed companies like Sage, and household names such as John Lewis. Other UK customers include Missguided, ASOS, MADE, Deliveroo, Comic Relief, and British Heart Foundation.

3. Observations on the Proposed Approach

Stripe agrees with the research objectives underlying the Proposed Approach. However, we have several comments on the proposed methodology of the merchant survey.

3.1 Identifying UK merchants

The Proposed Approach seeks to identify small and medium-sized UK merchants as its sampling frame. The Proposed Approach notes at footnote 8 of the consultation document that the PSR defines UK merchants as those with “at least one UK outlet, where an outlet is the location at which a card transaction is completed”.

While determining outlets will be straightforward for offline merchants, it may be more difficult to determine the location at which a card transaction is completed in respect of online merchants. For example, would a French company making sales into the UK via its website be considered a UK merchant by virtue of its customers making card payments from the UK? That would appear to be overly broad and potentially difficult for an acquirer to identify without reviewing transaction level data for its business. One potential solution may be to limit online merchants to UK registered companies. However the PSR choses to clarify the definition of UK merchants, it is important that the approach taken to online

merchants should be clear, consistent and proportionate to allow fair comparisons to be drawn.

3.2 Gathering merchant payment data

One point that the PSR should be aware of is that some merchants (in particular, but not exclusively larger merchants) may use several acquirers, and split their payment volume across those acquirers. This means that any one acquirer (who we understand will be asked to provide merchant data) may not have information for total payment volume for a specific merchant.

For example, Stripe could provide data for merchants for which we acquire payments, but only in respect of the volume we acquire - we would not have any insight into volume routed through other acquirers. Such circumstances may arise where a merchant who is a Stripe user for online sales also has offline sales; as Stripe does not currently offer any offline, physical POS products in the UK, any such offline sales would not be acquired via Stripe.

In this context, we recommend that the PSR aggregates merchant data across acquirers to ensure you have a complete picture of total merchant acquiring volumes.

4. Conclusion

The global payments industry has undergone significant change in a relatively short period of time, primarily due to the disruptive effect of new technology which the UK's tech industry has been at the forefront of developing.

We believe it has the potential to continue to transform the landscape of payments acceptance. Provided they are given space to grow - including ensuring future-proof interoperability of payment mechanisms - disruptive technologies, ongoing innovation and new market entrants and business models that challenge the norm can all deliver benefits to merchants and consumers alike in the supply of card-acquiring services.



Should the PSR be interested in further developing its understanding and knowledge about the card-acquiring market, Stripe would be delighted to be part of these conversations and efforts. We very much welcome the opportunity to continue to participate in the PSR's market review into the supply of card-acquiring services and would be very happy to discuss this response with the PSR if that would be useful.

UK Finance

PSR Market Review into the supply of card-acquiring services: Consultation on the approach to the merchant survey

Date: 13 June 2019

Address: UK Finance, 5th Floor, 1 Angel Court, London, EC2R 7HJ

Sent to: cards@psr.org.uk

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

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

General comments

UK Finance welcomes the opportunity to engage with the latest stage of the PSR Market Review into the supply of card-acquiring services by inputting on the general approach of this working paper; *Consultation on the approach to the merchant survey*.

We have a couple of high-level considerations that we would like to make at the outset before responding to each of the stipulated questions.

- UK Finance welcomes the PSR's approach as has been set out at *paragraph(s) 1.7 & 1.9* that the formulation and design of the merchant survey will be part of an '*iterative*' process; and constitutes one element towards part of an overall determination as to whether the supply of card acquiring services is working well for both merchants and consumers.
- We would urge that the PSR is kept mindful of the fact that the views and preferences of retailers can often be used as an inaccurate '*proxy*', and convenient substitute, to convey the '*wants*' of consumers which should be avoided.
- Rather when extrapolating the '*level of satisfaction/dissatisfaction*' from merchants to consumers, it is important to recognise that consumers are a wholly separate cohort of service-user. Consumers have a very broad and divergent set of needs as to why certain payment systems are used and systemically favoured.
- Ultimately, it is consumers who will decide what works best for them, as demonstrated by their purchasing decisions which retailers will need to cater for and respond to in turn.
- The working paper is 'silent' on the role that consumers play on the '*demand-side*' as to why merchants choose the services they do. The '*halo*' effect¹ that accompanied the successful uplift in contactless spend following full deployment on the TfL network (in September 2014) is an obvious case in point. This was built around a consistent customer experience which

¹ <https://www.finextra.com/news/fullstory.aspx?newsitemid=27119>

allowed merchants to follow suit, as consumers became accustomed to using the technology and wished to see it made available in the wider retail sector.

- Global card schemes are themselves a successful product borne from a wide-ranging set of collaborative interdependencies that deliver standards, rules and the technical infrastructure all of which are required to support a ubiquitous payment product. This in turn creates economies of scale and efficiencies through the volume of transactions that an interoperable global payment network brings and generates.

Responses to questions

(1) Do you agree with the proposed research objectives set out in Chapter 2 (Research Objectives)? If not, why not?

Overall the research objectives, as are laid out at paragraph 1.3 (a)–(d), offers a useful starting point by being predicated on the ‘*access, assess and act framework*’ approach as is referred to at paragraph 2.10.

A more considered focus is needed as to what key features, quality factors, and attributes a merchant considers when choosing between an acquirer, and/or card acquiring partner, they wish to use.

The survey should be explicit by focussing around these types of questions, so as to better understand what those competing dimensions are and should be being made clear as a key aspiration in the research objectives.

Those ‘*key features*’ and/or ‘*quality factors*’ (as a non-exhaustive list) might include –

- (i) *Pricing of payment processing.*
- (ii) *Pricing of terminals or other related services like ecommerce.*
- (iii) *A merchant’s obligations to the acquirer and why those obligations come about and who they are derived to.*
- (iv) *The impact of the merchant’s credit or business risks on an acquirer’s willingness to provide services; or, the conditions on which such services are provided.*
- (v) *Awareness of tools that support comparison of service providers non-price terms and conditions.*
- (vi) *Other regulatory obligations, data security and compliance considerations/ (e.g. PCI-DSS/ GDPR/ PSD2-SCA) etc.*

Only by deciphering how each of these facets impact on the commercial decisions that merchants make can the PSR begin to examine the dimensions of competition that impacts on the decision-making process. Driven as a result of the various relationships that naturally exist between various players that exist as part of any retail transaction.

The intricacies of which will be commensurate to what commercial arrangements are in place and which parties are actually involved – for example:

- *Terminal vendor and Terminal Service Manager (TSM)*
- *Merchant and acquirer*
- *Acquirer and network scheme*
- *Network scheme and issuer*

- *Third Party Provider (e.g. account information service or payment initiation service) and issuer.*
- *Merchant access to information*

UK Finance welcomes the emphasis that the PSR places around the importance of access to information, and the availability of services, which contributes to supporting an environment that encourages innovation and competition.

However, this needs to be tempered by the complexities of the acquiring market, and how the acquiring model works, which is also made implicit to ensuring the integrity and operational resilience of the card payments network. These should not be seen, by virtue of their consequential existence, as a natural barrier to switching.

All are indicative as to some of the key subtleties that surround how the card payments industry functions and operates. There remains a very real danger that by focussing only on one viewpoint (i.e. the merchants) that the scope of the survey becomes quickly '*jaundiced*' by narrowly focussing on a binary set of elements (i.e. price) that if asked, would be an obvious annoyance to retailers.

By doing so, this excludes any examination of a much wider set of considerations that should be factored in.

For example, the relevant costs/ benefits compared with other payment types; potential other barriers that persist for new acquiring entities operating in the market, and the simple fact that the focus of the survey seems to be an examination of acquirers without having their deeper level of understanding as to the liabilities and legal constraints they are placed under, precisely because of their commercial relationship with their merchant customers.

UK Finance would urge for the PSR to proactively work with acquirers to see how a more balanced survey might be achieved and to examine some of the ideas and approaches that the wider payments ecosystem may wish to explore. Devising and helping articulate a better set of questions that should be being put back on the merchant community to answer.

Service user needs are paramount to the development and implementation of new products; with consumer and retailer consultation a core component of the product development lifecycle that underpins the value of the merchant/ acquirer relationship and the card-acquiring business model in general. This consultation is an integral part in supporting what is essentially a two-sided market.

Arguably, the overall operation and upkeep of card-acquiring brings with it an array of commercial benefits and attributes that are offered up to the merchant community in being able to harness a global payment network that is constantly being evolved, updated and re-configured to meet changing customer behaviour and merchant needs.

This is becoming ever more pressing as merchants, across the full spectrum of industry sectors, look to scale their operations and harness both the payment acceptance opportunities as being offered through the internet (through the full range of digital channels that this includes) and the low-cost acceptance opportunities being presented in the physical proximity space.

- *Credible alternatives to card acquiring services*

UK Finance would argue, against any insinuation being purported as to a lack of ‘*credible alternatives*’ which seems indicative of a homogenised and ‘*sterile*’ market.

Any such statement should be qualified and seen in the wider context of viewing the UK cards market as a highly competitive environment. Built around leveraging a financial product whose whole premise is designed in incentivising use amongst two complementary groups (i.e. consumers and merchants).

This is likely to be intensified still further with the onset of other regulatory initiatives (e.g. *Open Banking/ PSD 2*) and market developments that are already happening (as evidenced by the growing number of high-profile mergers and acquisitions between leading PSPs) that will inevitably diversify many acquirer offerings beyond the traditional notion of ‘*acquiring*’ card payments.

These initiatives allow appropriately regulated companies (possessing the required consents as will be necessary), to initiate payments on their customers’ behalf which may be beyond the purview of financial institutions.

The onset and construction of a new *National Payments Architecture (NPA)* is likely to change the current arrangements of the UK interbank schemes still further, to align more closely with the operation and commercial objectives of card payments. This has the very real potential of ushering in a completely different model for retail payments, one that alters the primary function and perception of the UK interbank schemes as simple ‘*transfer mechanisms*’.

More generally, we would point toward market forces to account for the growing number of alternative international card networks expanding their presence into the UK market (e.g. *China Union Pay*²). This expansion is precisely because of the dynamic nature, maturity, and fact that the UK is recognised as the largest European market.

Making it an attractive proposition to newer entrants with aspirations in expanding their propositions³. This is also reflected by the increasing number of cross-border acquirers that have emerged and are gaining traction in the UK market, diversifying and simplifying the types of services being offered to merchants, and packaging this as part of a ‘suite’ of value-added benefits.

The value proposition in return is enabling merchants to better focus on their core functions, and activities in running their businesses, and helping them scale their operations either at a domestic, regional and/or global basis.

- *Contractual obligations and supply of card acceptance products*

As the acquiring industry diversifies this is obviously leading to a fragmented market where a multiplicity of contractual relationships can be a common feature in any given transaction. It would be interesting for the survey to decipher exactly where that level of dissatisfaction resides and who it should be apportioned to.

² <https://www.ft.com/content/c88f36e0-83c2-11e9-9935-ad75bb96c849>

³ <https://www.bbc.co.uk/news/business-46222127>

A common misconception is that the acquiring entity has sight, or control, over the services being provided for when this is not necessarily the case. There needs to be a proper level of focus that is made capable of pinpointing and distinguishing between these contractual nuances, and how these are played out in practice.

The same observation could be made in respect of the supply of card acceptance products to which acquirers may have little, if any, direct control as to how those specific terminals and/or devices are being provided for and what perceived barriers might be put in place.

(2) Do you agree with the methodology proposed in Chapter 3 (Survey Methodology)? If not, why not?

The concept of stratified sampling is an established method and can offer advantages over simple 'random sampling'.

However, our members have raised a number of concerns as to the partitions/merchant groups used, the sampling frame, and certain aspects to the methodology as purported.

UK Finance would question why the PSR has used a 'split' according to '*high-risk*' versus '*non-high risk*' merchants, as the appropriate mechanism, by which to review the acquiring market.

High-risk MCCs are dealt with very differently by acquirers and should not be disproportionately represented, as part of the quoted survey sample (1,200). A more balanced starting point might be to start with merchant turnover. Which might prove a better measure, as merchants with varying sizes will have distinct, and very different, challenges and needs.

If the PSR has a significant interest of high-risk MCCs, then perhaps this merchant category grouping should be looked at in isolation.

With regard the sampling frame those comments we have received suggest that this is too broad, and fails to capture the experiences between micro, small, and medium-sized merchants.

A still unanswered question is whether any singular survey, as is being presented, can effectively capture the concerns of all merchant types whose size of operation differ markedly. To which a more effective approach might be for the PSR to consider restricting the sampling frame to only small and micro-merchants.

With regard the methodology set out at paragraph 3.2. There are features (e.g. telephone interview survey approach) that could introduce a negative 'bias' into the results. Given the time and effort for completing a survey of this sort (versus an online survey) it may be that those respondents who do participate might have a stronger set of grievances at wanting to partake – implicitly creating a selection bias – by having a more negative disposition toward card acquiring services.

An added consideration is in how the survey is likely to be presented in practice. Presumably, the PSR's role will be explained as the regulatory authority driving the research, which may again lend itself to a more pessimistic and dissatisfactory set of views being expressed. Almost by way of an implicit invitation to do so.

Therefore, more explanation is needed as to what mitigations, safeguards, or, alternatives the PSR is exploring to minimise the risks of any selection bias, as well as what measure are being put in

place to guard against low response rates and in maximising participation (e.g. cash rewards for participation).

Similarly, when calculating the sampling bias it is important that the PSR should consult with Mastercard/ Visa to corroborate any merchant spreads across MCC groupings.

Obviously, an open question based on whatever sample size the PSR chooses to use, is they are kept mindful of any 'sample-size issues' if they wish to establish any further subsets.

Finally, because of the complexity of the card payments eco-system it would be useful for the methodology to actually clarify what tendering process has, or, will be, put in place to arrive at the chosen market agency in question.

In particular, it would be useful to understand what practical experience and exposure the selected agency has in their previous dealings with payments, and/or the financial services sector, in general.

A final observation is with regard to paragraph 3.5. The PSR should keep in mind a much wider 'merchant' engagement that includes (as a non-exhaustive list); *hotels and hospitality, charities, gaming providers, online streaming services, and multi-sided platform providers.*

We have assumed this information (i.e. the selection process for and respective industries of the thirty merchants as chosen) will be published as an appendix made part of the proposed publication of the draft questionnaire in June/July? And would be grateful for confirmation as to whether our assumption to this is correct.

Whilst lastly, what process will be put in place thereafter, for the industry to comment on the publication of those questions to ensure that they accurately reflect, and convey, the practices of the card-acquiring market.

Visa Europe

VISA Europe response to the PSR's working paper on the approach to the merchant survey

(in context of the market review into card-acquiring services)

13 June 2019

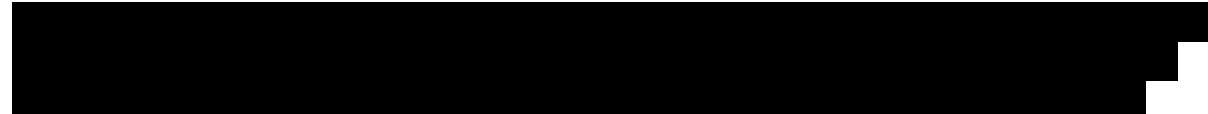
1 Overarching comments

Visa Europe ("Visa" in this document) welcomes the opportunity to respond to the PSR's working paper on the proposed merchant survey and to help inform the PSR's work on the Market Review into the Supply of Card-Acquiring Services (the "market review").

As we have previously noted to the PSR, Visa's business model rests on merchants being served effectively, and we are committed to ensuring that the payments market functions to deliver the capabilities and services they need. Fundamentally, expanding acceptance of digital payments for all merchants, big and small, is critical for delivering on our strategic vision.

Indeed, understanding the preferences, behaviours and barriers to accessing payments is fundamental to the success of our businesses. This is why the industry invests extensively in trying to understand merchant and consumer perspectives. We hear this from our acquiring partners; through the work we do directly with larger merchants, and through the programmes that we have invested in that are attempting to reach small and micro merchants¹.

As an example, and as the PSR is aware, we are the lead sponsor for the second year running of the Great British High Street Awards. Through this and other work, we understand the difficulties UK merchants are facing, particularly those merchants on the high streets. These difficulties include declining footfall, practical barriers to customers (such as parking), increasing rents and rates and the uncertainties posed by Brexit.

 This, in itself, should provide the PSR with a rich information set to consider, based on extensive industry investment, research best practice, and covering multiple types of engagement. It would therefore seem appropriate, and in line with best practice, for the PSR to fully assess this information before conducting its own narrower survey.

¹ The FCA defines a micro enterprise as having fewer than 10 employees and an annual turnover or balance sheet less than €2 million.

If, however, having analysed this research, the PSR considers that there are gaps in its information set, or if there is additional information the PSR would like to collect, there are a wide range of industry-led approaches that we urge the PSR to consider. This is because there are real risks and disadvantages associated with a regulatory body undertaking industry-wide surveys. These include:

- The risk of **negative bias** in the survey results, from respondents being aware that a public body is commissioning the research.
- The risk that regulatory bodies **miss key subtleties** of the operation of the industry and interlinkages between different market participants.
- The disadvantages that arise from regulatory bodies **not having a deep understanding** of the organisations they are surveying. This can lead to deficiencies in the approach, such as **missing harder-to-reach customers** – e.g. those with poorer English, or those less confident at engaging with authorities.

Given the above, Visa encourages the PSR to engage with industry to determine the best way forward to establish a merchant research programme, instead of conducting its own survey. A range of options are available, including:

- The PSR and industry could work together to agree specific questions and methods for the research. Such an approach has precedent in merger cases in the UK, where the CMA allows industry stakeholders to conduct their own surveys in consultation with the CMA.²
- Alternatively, the PSR could explore requiring companies to set up Customer Challenge Groups (“CCGs”), seen in some other sectors. The CCG approach recognises that companies own the relationships with their customers, and are therefore best placed to carry out customer research. However, and importantly, the CCG acts as an independent body which can help to guide and scrutinise the research, without direct involvement from the regulator.
- Finally, the PSR could lead the design of research objectives, but leave industry with the responsibility for completing the research and later reporting back to the PSR.

All of these options reduce the risks of negative bias, missing subtleties of the industry, or failing to gain a deep understanding of customer needs.

Further and in the context of a competitive market, the PSR should think carefully about the opportunities it has available with different industry stakeholders to trial and test a range of different research methods across the payments ecosystem. Such an exercise could be more ambitious and lead other regulators in their approach to market research. Most importantly, it would ultimately give the PSR a far richer set of results.

We welcome a discussion with the PSR on ways to progress a broader industry-led research programme.

² CMA, Good practice in the design and presentation of customer survey evidence in merger cases, May 2018: Section 1.

However, if the PSR does continue with its own survey, Visa strongly urges the PSR to consider the following points:

- **The sampling frame is too broad and will not sufficiently capture the different experiences of micro, small, and medium-sized merchants.** Merchants of varying sizes will have distinctly different challenges. We question how a single survey can capture the concerns of merchants varying in size from a sole trader to 250 employees. We therefore recommend the PSR considers restricting the sampling frame to only small and micro merchants.
- **There are features of the methodology that will introduce negative bias in the results.** Merchants will have a choice in whether they take part in the survey. This inevitably creates a selection bias, in that merchants with more negative views of their card acquiring services are more likely to decide to take part in the survey. We therefore urge the PSR to explore ways to maximise participation rates, e.g. by considering cash rewards for participation. Further, as noted above, if respondents are aware that a public body is driving the research, they may be more likely to provide answers that express dissatisfaction.
- **The research objective should encompass all payment types for comparison.** The competitive landscape is characterised by a wide and increasing range of payment solutions available to merchants (including many solutions where the role of cards altogether could decline significantly in the future). Most merchants accept multiple forms of payment through various products and channels. The PSR should ask merchants for a balanced view on the relative benefits and costs of all of the different payment methods they use (including non-card digital payments, and cash where relevant).

In Sections 2 and 3 of this response, we expand on these points, and provide further detailed comments on the PSR's proposed objectives and methodology.

Visa continues to stress the importance of the PSR maintaining an open perspective on its objectives and not focussing on addressing preconceived notions about the market. We urge the PSR to continue engaging closely with stakeholders to understand the specific complexities of the payments sector and we would be very happy to work with the PSR on any of the points raised in this paper.

2 Comments on the PSR's proposed research objectives

As part of the market review, the PSR wishes to undertake a survey of small and medium-sized merchants in the UK to understand how they buy and use card-acquiring services. This is part of the PSR's overall objective which is to look at whether the supply of card-acquiring services is working well for both merchants and consumers.

As we have previously noted to the PSR, the market for acquiring services is constantly evolving to respond to changing end-user needs, which means that the value proposition for acquiring services has changed significantly over recent years. For example, the market today caters to a much larger segment of merchants who had been underserved previously; and the market is also increasingly characterised by an extensive range of value added services and products that are tailored to individual merchant needs which are becoming more diverse.

Competition between acquirers for merchant business therefore increasingly occurs across more dimensions than price: while some merchants may place a premium on lower cost per transaction, others may place greater value on other factors, such as ease or speed of onboarding, improved security or fraud support, or associated services such as analytics.

As set out in Section 1, we urge the PSR to consider a more comprehensive approach to understanding what matters to merchants.

However, if the PSR continues to pursue a merchant survey, we encourage the PSR to continue to work closely with the sector in developing the survey methodology, to ensure the dynamics of the market are accounted for in both the survey and in the ultimate interpretation of the analysis to the fullest extent possible.

In the remainder of this section, we set out our views on the specific research objectives stated by the PSR:

- Do merchants have credible alternatives to card-acquiring services for Mastercard and Visa?
- How do merchants access information about card-acquiring services, how do they assess that information, and do they act on it?
- How satisfied or dissatisfied are merchants with the quality of service they receive from their provider of card-acquiring services?
- How does the supply of card acceptance products affect merchants' choice of card-acquiring services provider?

2.1 Alternatives to Visa and Mastercard

PSR research objective: Do merchants have credible alternatives to card-acquiring services for Mastercard and Visa?

As a general comment, we urge the PSR to not lose sight of the broader competitive landscape in payment solutions and in particular the rapid pace of change. A merchant survey will inherently only reflect a limited 'snapshot' at a point in time, and will not be indicative of the market in the future.

At this stage, we have two specific comments on the research objective:

- **The objective implies a false choice.** The PSR should be mindful of not presenting other payment methods as purely *alternatives* to Mastercard and Visa. This could be read as implying a false choice between accepting card payments alone or accepting an alternative form of payment (and not accepting cards). In reality, merchants tend to accept multiple forms of payments.
- **The objective does not reflect how consumers actually make decisions on payment methods.** The PSR implies that merchants have a 'credible' alternative if they have the incentive and ability to steer their customers' choice of payment method. This has to be considered with caution as consumer decisions on payment methods are often not made on a per-transaction basis, but instead, as part of an overall decision by the consumer based on perceptions of the benefits of different payment methods (including convenience, security, etc.). Merchants choose to accept card payments because this is what consumers prefer to pay with, and merchants continue to accept cash because some consumers continue to rely on cash.

2.2 Accessing, assessing and acting on information

PSR research objective: How do merchants access information about card-acquiring services, how do they assess that information, and do they act on it?

Given the complexity of acquirer business models and fee structures, it is important that merchants can find the solutions that work best for them.

At this stage, our key comment on the research objective is that the **PSR should ask merchants about how they use the breakdowns of their Merchant Service Charge (MSC)**. The PSR has previously highlighted a concern that acquirers may not have passed savings from interchange fee caps introduced by the Interchange Fee Regulation (IFR) onto smaller merchants. As we have previously noted to the PSR, there may also be wider issues around implementation of the IFR which could contribute to reduced visibility around fees. For instance, smaller merchants may not currently appreciate their right to see (or the benefits of seeing) the MSC breakdown. This information does not provide a direct comparison between card-acquiring services but, if more transparent and uniform across card acquirers, could help merchants understand their own fee structures compared to alternatives.

2.3 Quality of service

PSR research objective: How satisfied or dissatisfied are merchants with the quality of service they receive from their provider of card-acquiring services?

As noted above, the card acquiring market continues to grow in complexity, being characterised by an extensive range of specialist value added services and products that are tailored to individual merchant needs. With this in mind, a general comment on this objective is that the PSR should work closely with stakeholders to understand the full range of products available to merchants, and the value these provide.

At this stage, we have two further specific comments on the research objective:

- **The research objective should encompass all payment types for comparison.** As we note in Section 3 below, there are inherent difficulties in asking more subjective questions around levels of satisfaction and ‘value for money’. One way of addressing this is to perform a more comparative analysis and asking merchants for a balanced view on the relative benefits and costs of *all* of the different payment methods they use (including cash where relevant).
- **It is not clear how the PSR will assess which non-price features matter to merchants.** Many merchants will not have a strong awareness of what these features are and might take them for granted. For instance, faster onboarding is a distinguishing non-price feature many payment facilitators bring that traditional acquirers do not. Merchants may not necessarily be able to identify this as a non-price feature, unless this is highlighted to them. The research questions should be refined accordingly to reflect this.

2.4 Card acceptance products

PSR research objective: How does the supply of card acceptance products affect merchants’ choice of card-acquiring services provider?

As a general comment, establishing a thorough understanding of card acceptance products will be critical for informing the research questions and findings for other areas of the merchant survey. For example, there could be interactions between fees for card-acquiring services and fees for card acceptance products (an acquirer may offer POS terminals ‘free’ as an inducement or promotion). It will be important for the survey questions to fully capture this complexity.

At this stage, we have two further specific comments on the research objective:

- **The survey should examine whether third-party card acceptance products control the price of card-acquiring services.** The Final Terms of Reference of the market review stated that the PSR would be examining “*whether third-party providers of card acceptance products control the price of card-acquiring services*”.³ The PSR should consider testing this through the survey.
- **The objective implies a 1:1 relationship between merchant and acquirer, which is often not the case.** We know from our work with merchants that many merchants use multiple types of card acceptance products and platforms. This means that the survey questions should accommodate this and not assume a single card acceptance provider per merchant. This also means, of course, that a single merchant can be associated with multiple acquirers.

³ PSR, Market review into the supply of card-acquiring services, Final terms of reference, January 2019: 2.21.

3 Comments on the PSR's proposed survey methodology

In this section, we set out our two key critiques of the proposed survey methodology, as well as some further comments for the PSR to consider.

3.1 The proposed approach does not explicitly capture the experiences of micro merchants

The target population for the merchant survey is small and medium-sized merchants. The sampling frame includes micro merchants, but we consider that micro merchants should be an explicit target of the study.

The range in merchant experiences (and in particular, their abilities to access, assess and act on information about card-acquiring services) is large, and it will be difficult to design a survey that accommodates this range. Given that the focus of the market review is on smaller merchants⁴, we recommend the PSR ensures the survey is targeted at small (and micro) merchants. This could mean a separate survey for medium-sized merchants.

3.2 The proposed approach has a risk of negative bias

There is a risk of negative bias in the results, and in particular for the more subjective areas around satisfaction levels and 'value for money'. This is for two reasons which we provide below.⁵ As set out in Section 1, we urge the PSR to consider a more comprehensive industry-led approach to understanding what matters to merchants, which would be the best way to mitigate these risks.

3.2.1 *Bias arising from self-selection*

Self-selection is a bias that occurs when participants have a choice of whether to take part in a survey. For example, participants who are more dissatisfied with the status quo are more likely to take part in surveys. The CMA notes that "*survey design should include strategies to maximise the response rate and to minimise the risk of significant non-response [self-selection] bias*".⁶

One such strategy, which has precedent, is offering monetary incentives for participation. Two examples in the context of consumer surveys are:

- £20 in the survey conducted by the CMA in the context of the Energy Market Investigation.⁷
- £40 in the survey conducted by Ofwat in the Review of the Residential Water Market.⁸

⁴ PSR, Market review into the supply of card-acquiring services, Final terms of reference, January 2019: 1.17.

⁵ We urge particular caution on the part of the PSR especially because, as far as we understand, it does not have a separate dedicated in-house research function. In some other public bodies (and regulators), a separate research function acts as a strong internal challenge to ensure research is carried out in a neutral and independent manner.

⁶ CMA, Good practice in the design and presentation of customer survey evidence in merger cases, May 2018: 2.20.

⁷ Energy Market Investigation, Technical Report on a survey conducted for the Competition and Markets Authority by GfK NOP.

⁸ Prepared for Ofwat by Accent – Customer Response to Competition in the residential Water Market - Final Report 2016.

We urge the PSR to explore ways to maximise participation rates, through modest inducements or otherwise.

3.2.2 *Bias arising from knowledge of the survey origins*

Merchants responding to this survey – if they are aware of its origin – may believe that the PSR could reduce the cost of card-acquiring services with no other consequences, which means they would have an incentive to understate their perceptions of ‘value for money’.

We understand the PSR is likely to have to reveal the origin of the survey, even if conducted using a third party agency. We urge the PSR to ensure that the survey is conducted in as neutral manner as possible, but note this is a risk that is very difficult to mitigate.

More broadly, this is another example of where the sampling frame is problematic. There will be a large disparity between merchants at either end of the sampling frame in terms of their level of understanding of the PSR’s programme and therefore the strategies they take in responding.

We further note that responses on ‘value for money’ will need to be treated with some caution, since this is a ‘one-shot’ survey⁹ and the research objectives do not suggest there will be questions asking merchants directly about trade-offs.¹⁰

3.3 Further comments on methodology

3.3.1 *Use of a single survey channel*

The PSR proposes to use structured telephone interviews to administer the survey. We urge the PSR to consider whether bias may be introduced by the use of this single channel.

In its review of the Residential Water Market, Ofwat used a mixed method survey with 1,814 interviews conducted online and 200 by computer assisted telephone interviews. The purpose of including the telephone interviews was to include older customers and those without access to the internet as Ofwat had determined that a single engagement channel could lead to an unrepresentative sample.¹¹

In the case of the proposed merchant survey, it is possible that some participants may find an online survey far easier to engage with than a telephone survey – for example, micro merchants or sole traders are less likely to have time during the working day than a desk-based employee (working for a larger merchant) would.

Through our own work with small merchants (in partnership with third parties) we have used online-only channels in surveys with success. Whilst we do not recommend an online-only survey, there are merits in at least offering a choice of survey channel.

⁹ By way of contrast, regulated utilities are required to conduct customer surveys as part of their licence conditions and/or price control arrangements. Customer satisfaction is often measured in these surveys, but this is typically an exercise conducted annually. As there is a historical time series, it is much easier to benchmark performance and often the regulated utility will be penalised or rewarded depending on year-on-year change.

¹⁰ By way of contrast, surveys conducted for merger reviews often contain detailed questions on ‘willingness to pay’ where the trade-off between service, quality and cost is examined.

¹¹ Report prepared for Ofwat by Accent – Customer Response to Competition in the residential Water Market – Final Report 2016.

3.3.2 *Sample size*

It is not clear to us how the PSR proposes to account for non-responses. If the target number of telephone interviews conducted is 1,200 then the PSR will of course require an initial sample that is significantly larger.

3.3.3 *Person responding on behalf of each merchant*

Through our work with merchants we know that it can be difficult to identify who the right individual is to engage with from a given merchant, and that sometimes there is not one single individual who is best placed to answer a series of questions. We urge the PSR to consider carefully how to reach the most appropriate individual on behalf of each merchant, and how to deal with situations where the merchant knowledge in the area is across a number of individuals. For many merchants, the decision-maker for payments infrastructure may not be the owner/proprietor.

3.3.4 *External factors driving card use*

Through our work with merchants, we know there are some merchant sectors which have very low card acceptance rates due to factors that are not related to the cost/benefits of card-acquiring services. An example of this is the gambling sector where there are restrictions on card use for certain services. We urge the PSR to ensure its survey design allows merchants to articulate any external factors they are aware of that affect how their card use.

3.3.5 *Nomenclature*

Through our own engagements with merchants, we know that many merchants (and in particular the smaller merchants) are unfamiliar with many of the terms used by the PSR to characterise the many different types of entities, relationships and services in the payments sector. The merchant survey should ensure that it uses simplified ways to describe these, especially where there is a risk of confusion. As an example, the distinction between *card acceptance products* and *payment facilitators* is not always clear-cut.¹²

3.3.6 *Approach to quality assurance of the questionnaire*

We welcome the PSR's approach to ensure the quality of the questionnaire and are looking forward to engaging further in this consultation, by providing our views to the draft questionnaire that will be published in June or July 2019. We urge the PSR to continue to work closely with the sector to ensure that the specificities of the payment sector are appropriately reflected in its analytical work.

¹² As an example, iZettle is a payment facilitator but provides a hardware solution.

Worldpay



PSR market review into the supply of card-acquiring services

Worldpay response to merchant
survey approach consultation
(MR18/1.4)

June 2019

Non-confidential version

1 Introduction and Summary

- 1.1 The PSR intends to conduct a survey of small and medium-sized UK merchants who purchase card-acquiring services to understand factors that may affect demand from merchants for these services. The proposed approach to conducting this survey is explained in the PSR's 'Consultation on the approach to the merchant survey' (the 'Survey Approach'), published in May 2019. This survey is proposed in the context of the PSR's market review into the supply of card-acquiring services, and the PSR has indicated that results from this survey will form a part of the evidence base used in reaching its view on the effectiveness of competition in the card-acquiring industry.
- 1.2 Worldpay welcomes the opportunity to participate in this consultation and to comment on the PSR's proposed approach. We have considered the two questions that the PSR has included in the Survey Approach, specifically on the appropriateness of the research objectives proposed and on the appropriateness of the proposed survey methodology.
- 1.3 Overall, we consider that the research objectives are appropriate given the context of the PSR's market review. However, we note that there may be challenges and risks to collecting accurate and informative responses to the survey. In particular,
 - merchants may not be aware of the technical distinction between "card-acquiring services" (as defined in the Terms of Reference of the market review), and other elements of the card acceptance value chain. In the short time allocated for each telephone response, interviewers may not be able to make clear to merchants exactly what card-acquiring services encompasses under this definition;
 - there is a risk that views and experiences with other aspects of the value chain may influence responses concerning card-acquiring, which should be considered when designing the questionnaire and interpreting responses. Merchants may not be able to distinguish between providers of card acquiring services from ISOs, payment facilitators, technology providers etc., and therefore may respond in a general way in relation to all merchant facing providers; and
 - a significant challenge facing any survey of businesses is to ensure the questions are addressed by the key decision-makers within the business (i.e. the person(s) responsible for buying card acquiring services). Identifying the relevant individuals can be challenging, particularly for larger businesses, which could affect both the response rate and the quality of responses obtained.
- 1.4 In terms of the survey methodology, we consider that the sampling frame does not specify the correct annual card turnover threshold to be able to draw a relevant and informative sample for the PSR's purposes. In particular, we consider that there is a risk of under-sampling medium sized (and larger) merchants, and that the PSR will not be able to draw statistically significant conclusions for these groups of merchants, based on a random sample from the proposed sampling frame.
- 1.5 The Survey Approach paper states that the PSR proposes to collect 1,200 survey responses from merchants who were "customers of the five largest acquirers" (i.e. the sample is not specific to Worldpay). The Survey Approach paper does not, however, explain how the sample will be sub-divided between customers of the different card acquirers, which could impact on the overall representativeness of the sample. The sample size is also likely to be too small to draw any statistically significant conclusions and meaningful comparisons between card acquirers.

- 1.6 We further welcome that the PSR intends to share a draft survey for consultation. Thorough consultation and consideration of the questions asked and phrasing of the survey is crucial to the survey being able to accurately reflect the card-acquiring industry. We note the intention to conduct cognitive testing of the questionnaire and a pilot of the survey, and we would welcome the opportunity to engage with this process and we would expect that outcomes from this will be shared with parties subject to the market review.
- 1.7 The Survey Approach states in footnote 2 that the PSR will also be engaging directly with larger merchants with the same range of research objectives. However, the Survey Approach does not provide any details as to how it will be engaging with larger merchants, or what its approach to sampling and questioning will be. Worldpay assumes that the PSR will be consulting on the methodology that it proposes to adopt. Comparing this research with the findings from the survey will pose further challenges unless closely aligned in objectives, process and approach.
- 1.8 Our detailed response below provides our views specifically on the two questions set out in the PSR's consultation. Our response to each question is provided in the respective sections immediately following the inline question boxes.

2 Responses to consultation questions

Question 1: Do you agree with the proposed research objectives set out in Chapter 2 (Research objectives)? If not, why not?

- 2.1 The research objectives identified in Chapter 2 of the Survey Approach are broadly relevant and consistent with the Terms of Reference of the market review. We welcome the PSR's stated intention to share a draft questionnaire for consultation. This is an important area for parties to the market review to be able to comment on, as the specifics of the questions asked and how they are worded will be key to the survey responses accurately reflecting the reality of the card-acquiring industry. In terms of more detailed comments on the high-level research objectives as described in Chapter 2 of the Survey Approach, we discuss each of these in turn below.
- 2.2 **Do merchants have credible alternatives to card-acquiring services for Mastercard and Visa?** From a merchant perspective, we consider it relevant to understand what alternatives there may be to accepting payments made using Mastercard and Visa cards (although we would note this a wider question than just alternative card schemes or card-acquiring services). As identified in previous submissions to the PSR, we are seeing innovation in payment systems, with new entrants and new payment methods being introduced in recent years. In this context of a dynamic market, it is important to understand merchants' views as to alternatives to card payments more broadly, and not just Mastercard and Visa payments.
- 2.3 However, given the dynamic nature of payments, we would note caution that responses collected in this survey may not necessarily be helpful in drawing conclusions on card-acquiring or payments in the near future, as new, burgeoning or as yet undeveloped payment methods become more popular in the next few years. Merchants may not be in a position to credibly articulate their views on future offerings and consumers' preferences for alternative payment methods, and as such, responses to this survey may not provide useful insights into the payments industry in the near future.
- 2.4 The PSR needs to be clear on the objectives it aims to achieve in obtaining information from questions that consider "if merchants have the incentive and ability to steer their customers' choice of payment method" (para 2.6). We would also encourage the PSR to collect views and information on whether the merchant's card acquirer makes access to other payment methods available, and if so, which ones. It would also be relevant to ask whether the availability of alternative payment methods by card acquirers is a factor that merchants take into account in choosing between different card acquirers. In terms of customers' choice of payments, we would consider views from consumers themselves to be a more useful source of information, rather than the views from merchants.
- 2.5 **How do merchants access information about card-acquiring services, how do they assess that information, and do they act on it?** We consider the Access-Assess-Act framework to be appropriate for considering how merchants make decisions concerning card-acquiring. This is a well-established framework that has previously been used in assessing demand-side decision-making.
- 2.6 However, given the differentiation of merchants who purchase card-acquiring services, there is a risk that the responses given in the survey may not give an accurate view of the diversity in the marketplace, and that an overall result from the survey may not be informative for some (or all) of the market. This is a risk across all research objectives, but this may be particularly pronounced regarding an understanding of decision-making under the Access-Assess-Act framework. For example, the current sampling approach may under-represent the number of

merchants who have switched, which may put at risk the ability to draw statistically significant conclusions concerning any potential differences between merchants who have switched and who have not switched. We discuss our concerns with the sampling approach further in our response to Question 2 below.

- 2.7 Additionally, we note that in the description of this research objective there is no reference to what factors are considered to be important to merchants in choosing their card acquiring service. It is important that the PSR seeks to understand the key price, quality and service factors that are taken into account by merchants in making their purchasing decisions, and we would expect to see questions focussed on this in the merchant survey to allow the PSR to attain this research objective. Examples of factors that may be important to merchants when choosing a card acquirer include security of payments, speed of settlement, fraud, cost per transaction, and the ability to accept other payment methods.
- 2.8 Related to the point above, the PSR should also be aware that responses may differ significantly for merchants of different sizes (e.g. the requirements of SMEs are often very different to large corporates, some of which are included within the PSR's proposed sample (as discussed further below)). To that extent, we would expect that the coding used by interviewers to classify merchant responses into common groupings or themes of answers would be sufficiently broad to capture common answers for all sizes of merchants surveyed.
- 2.9 We would also note that the framing of the survey content risks an implicit assumption that there are barriers to accessing, assessing or acting in the card-acquiring industry. Responses to questions targeted at this research objective should be carefully considered. For example, a merchant who has not considered switching card acquirer may identify the effort to do so as a barrier. Since the merchant has not considered doing so, they are not informed as to the actual effort involved, and in fact their perception of the effort may not give an accurate reflection of the barriers perceived by merchants who have switched or are considering switching.
- 2.10 **How satisfied or dissatisfied are merchants with the quality of service they receive from their provider of card-acquiring services?** We consider merchant satisfaction to be a relevant consideration, when placed within the broader evidence available, such as the incidence of merchant complaints or other quality of service KPIs.
- 2.11 However, as discussed immediately below, merchants may not appreciate the technical difference between card-acquiring services and card acceptance products, and hence responses relating to satisfaction with the quality of services may be unreliable as they focus on card acceptance products rather than card-acquiring services. This is because card acceptance products (terminals in particular) may be more salient for merchants than card-acquiring services as defined in the Terms of Reference. Hence merchants may anchor their responses on those products rather than replying with a focus on the card-acquiring service.
- 2.12 There is potential for a sampling bias whereby merchants who are less satisfied with their card-acquirer may be more likely to respond to a telephone survey, relative to the merchant population overall. This is discussed in more detail in the response to Question 2 below.
- 2.13 **How does the supply of card acceptance products affect merchants' choice of card-acquiring services provider?** In principle, we consider this to be a relevant research objective, as providers of card acceptance products are an important part of the card payments value chain. Also, as discussed in our response to General RFI 1, merchants may value a one-stop-shop for card acceptance products and card-acquiring services; card-acquirers may also provide discounts for purchasing card acceptance products alongside card-acquiring services, reflecting the cost efficiencies from providing these services together.

- 2.14 However, the distinction between card acceptance products and card-acquiring services may be difficult to communicate to merchants, in particular within the confines of a telephone survey. In line with our response to the Terms of Reference, the distinction made by the PSR between card-acquiring services and card acceptance products is not the way in which suppliers or customers consider services for card payments. For smaller merchants in particular, card acceptance products, and terminals in particular, may be a more salient product than card-acquiring services as defined by the PSR, and responses concerning card-acquiring may in fact largely reflect views concerning terminals or other card acceptance products. More broadly, where merchants purchase a suite of products from an acquirer or via another provider of card acceptance products in addition to card-acquiring, it may be difficult for respondents to disentangle a response to reflect card-acquiring in and of itself, rather than the suite of products purchased overall. We would be keen to understand how the PSR intends to draw conclusions concerning card-acquiring strictly as defined in the Terms of Reference, and what steps will be planned to mitigate the risk of misunderstanding of this definition of card-acquiring.
- 2.15 Additionally, we would suggest that the PSR consider broadening considerations here to capture whether other financial services products that merchants purchase affect their choice of card acquirer. For instance, if a merchant purchases business banking services from a firm that provides card-acquiring, they may consider whether there are benefits from also purchasing card-acquiring services from the same provider. As discussed in Worldpay's response to the draft Terms of Reference, there may be reduced costs for merchants from 'on-us' transactions processed by an acquirer.

Question 2: Do you agree with the methodology proposed in Chapter 3 (Survey methodology)? If not, why not?

- 2.16 We consider the proposed methodology to face several challenges, which broadly cover three areas: sampling approach; stratification and sample size; and obtaining representative and accurate responses. Our comments on each of these areas are provided below.

Sampling approach

- 2.17 In the Survey Approach, the sampling frame from which the sample will be drawn is identified as comprising "all active UK merchants with a card turnover below £28 million in 2018 that were customers of the five largest acquirers".¹
- 2.18 The proposed sampling frame does not reflect what Worldpay and others consider to be small and medium sized merchants. As set out in response to Q5 of the General RFI response, Worldpay's UK & Europe line of business groups merchants into three turnover bands: less than [£<] (SMEs), [£<] (Small Corporates), and greater than [£<] (Large Corporates). The Competition and Markets Authority (CMA), in its review of the *Paypal/iZettle* merger, identifies small merchants as those with an annual card turnover below £380,000,² [£<]. As submitted in our recent response to the PSR's information request, our merchant segmentation is based, among other factors, upon the different payment acceptance requirements of merchants in these different segments.
- 2.19 The PSR's proposed sampling frame would capture a sizeable proportion of firms that we would consider to be 'large corporate' merchants. Worldpay's response to Part 3 of General RFI 1 indicates that [£<] of Worldpay's large corporate customers are those who have annual card turnover between [£<] and [£<] – as reported in the table below. As such, it is our view that the sampling frame does not in fact reflect what are commonly considered small and medium

¹ Para 3.10a.

² CMA (2019), 'Completed acquisition by PayPal Holdings, Inc. of iZettle AB - Final report', 12 June, p. 45.

sized merchants, but rather reflects in Worldpay's case [redacted] of firms that purchase card-acquiring services.

Proportion of Worldpay merchants by turnover band

	Number of Worldpay merchants	Proportion of Worldpay merchants
Turnover <£380k*	[redacted]	[redacted]
Turnover [redacted]	[redacted]	[redacted]
Turnover [redacted]	[redacted]	[redacted]
Turnover [redacted]	[redacted]	[redacted]
Total	[redacted]	100.0%

Source: Worldpay General RFI 1 Annex A, Part 3 response.

Note: *As per CMA's definition of small merchants in CMA (2019), CMA (2019), 'Completed acquisition by PayPal Holdings, Inc. of iZettle AB - Final report', 12 June, p. 45.

- 2.20 The current cut-off of £28m annual card turnover implies that some large corporate customers would be included in the sampling frame for the survey, while others would be excluded, and the plan is for the PSR to 'engage directly with [these] larger merchants'.³ For the larger merchants included in the sampling frame, the PSR recognises that they are 'unlikely to be included in the sample we draw, given there are relatively few merchants at the higher end of the turnover distribution'.⁴ Hence, under the current sampling frame, there is a risk of disparity in engagement and information collected between large merchants, and a risk that a sizeable proportion of larger merchants will be omitted from the evidence base considered by the PSR. As a result, the PSR should carefully consider the annual turnover threshold for the sampling frame.
- 2.21 From the sampling frame defined above, a random sample of merchants is intended to be drawn, which we understand to mean that each merchant in the sampling frame has an equal probability of being included in the sample, but for the stratification criteria identified in the Survey Approach (which we discuss below).
- 2.22 It should be noted, however, that if the PSR adopts a random sampling approach, it is likely to result in a sample that consists of a large number of very small merchants, with a substantial risk of under-sampling mid-size and larger merchants. As reported in the table above, the vast majority of Worldpay's UK card-acquiring customers are smaller merchants, under the turnover thresholds considered by the PSR in the Survey Approach, [redacted]. This could lead to responses being obtained that are not representative of the merchant sampling frame being considered by the PSR, given the far higher incidence of smaller merchants versus mid-to-large sized merchants. Even if the sampling frame is limited to have a lower annual turnover threshold, a fully random sampling approach still risks medium-sized merchants being under-sampled, and consequently there being insufficient medium-sized merchant respondents to draw meaningful statistical inferences.
- 2.23 There are two risks to the PSR's ability to draw conclusions due to the sampling approach proposed. First, there may be an insufficient or unrepresentative sample of mid-sized/larger merchants to be able to draw robust conclusions for this group based on responses provided to the survey from medium-sized respondents. Second, conclusions for the entire sampling frame may be inaccurate, as they will be driven by responses from very small merchants, since responses from medium and larger merchants will be so limited in number as to have no appreciable effect on the overall conclusion. Hence, while these conclusions may be

³ Footnote 2, p. 4.

⁴ Footnote 13, p. 14.

appropriate for smaller merchants within the sampling frame, they may again be incorrect for the medium and larger merchants within the sampling frame.

- 2.24 Additionally, considering the groupings of merchants by threshold defined in the CMA's review of the *Paypal/iZettle* merger indicates that there may be further sub-groups of merchants by turnover. The CMA defined 'Nano' merchants as those with an annual card turnover below £21,000, 'Micro' merchants as those with an annual card turnover between £21,000 and £160,000, and 'Small' merchants as those with an annual card turnover between £160,000 and £380,000.⁵ In order to have an accurate representation of the smaller merchant market, the PSR should also consider whether adequate responses are collected from different sub-groups of smaller merchants to allow for robust statistical inference for relevant sub-groups of smaller merchants.
- 2.25 One approach that may be considered is to weight responses, for example by respondents' turnover or number of transactions. However, due to the sampling frame including customers with card turnover as high as £28m, there would be a risk that only a few large merchant respondents may unduly influence the conclusions drawn for the sampling frame overall, if using a weighting approach. There is a risk that weighting responses in this way will lead to overall conclusions that reflect accurately on the largest merchants in the sample, but small merchants' responses will have a minimal weighting that in practice means that their responses will have no appreciable effect on the overall conclusion.
- 2.26 Finally, the proposed approach defines an active UK merchant as "one that accepted one or more card payments since 1 January 2018". This implies that a merchant could still be considered to be active even though it has not processed a card transaction for a period of roughly 18 months. We think this is too long a period, particularly in a rapidly-evolving industry, to be detached from the marketplace in order to be able to provide informed views in response to the type of questions being asked by the PSR. In particular, small merchants may have become defunct or dramatically changed their business model or turnover in this time period. We would instead suggest time limiting the sampling frame to merchants who have accepted card payments in 2019.

Stratification and sample size

- 2.27 The Survey Approach indicates that an overall sample of 1,200 merchants will be drawn from the sampling frame. This sample will be split equally between (i) merchants in high-risk industries versus all other industries; and (ii) merchants that are e-commerce only, face-to-face only, and both e-commerce and face-to-face (all others).
- 2.28 The Survey Approach explains that the PSR proposes to collect 1,200 survey responses from merchants who were "customers of the five largest acquirers" (i.e. the sample is not specific to Worldpay). The Survey Approach paper does not, however, explain how the sample will be sub-divided between customers of the different card acquirers, which could impact on the overall representativeness of the sample. The sample size is also likely to be too small to draw any meaningful comparisons between card acquirers.
- 2.29 In line with our comments above, a random sample of merchants that is selected without using quotas for different turnover bands or other merchant characteristics magnifies concerns with regards to under-representation of certain merchant groups. In particular, the risk is increased of mid-sized or larger merchants being under-represented in one of the six merchant groups identified in the Survey Approach (Table 1), leading to an inability to draw robust conclusions as discussed above. One option to consider may be to include a stratification of merchants by

⁵ CMA (2019), 'Completed acquisition by PayPal Holdings, Inc. of iZettle AB - Final report', 12 June, p. 45.

annual turnover, reflecting the potential differences between merchants based on their size, as discussed above.

- 2.30 Moreover, there is a risk of notably different compositions of merchants being drawn to each of the six merchant groups, which may mean that differences in results across merchant groups may be driven by differences other than whether merchants are in high-risk versus non-high-risk industries, and whether merchants are online, face-to-face or both.
- 2.31 In terms of identifying high-risk industries, the Survey Approach states that MCC codes will be used. However, as per our previous submissions, MCC codes provided in response to General RFI 1 provide only a single MCC code per merchant, reflecting the MCC code with the greatest value of card transactions. In practice, however, merchants may have multiple MCC codes reflecting the different lines of business of the merchant, and this could result in some businesses being incorrectly categorised as being in/not being in high-risk industries.
- 2.32 More broadly, Worldpay would like to understand the motivation behind stratification into high-risk and not high-risk industries as one of only two dimensions considered when stratifying merchants. From our perspective, it is not clear why responses specifically for high-risk business versus non-high-risk businesses should be of more interest than say responses for mid-size merchants versus micro-merchants, or responses for merchants with a single outlet versus merchants with multiple outlets. In Worldpay's experience, these latter stratifications are more reflective of differences in merchants' preferences and decision-making regarding card-acquiring rather than industry risk classification.

Representative and accurate responses

- 2.33 The proposed survey seeks responses from merchants via telephone interviews. However, there may be challenges in ensuring representative and accurate responses from merchants when using this format, and more broadly, when asking about card-acquiring services, as decisions in mid-sized and larger firms may be made by comparatively senior and time-pressured decision-makers.
- 2.34 We would urge the PSR to clarify who within a firm the survey will be targeted at, and how the PSR will ensure that appropriate decision-makers are reached. As the PSR intends to sample all active UK merchants with a card turnover below £28 million (i.e. a sample that includes some large corporates), the PSR should be aware that, for merchants at the top end of this turnover range, it may face difficulties in reaching the key decision-makers for card acquiring services, which could have a negative impact on the quality and reliability of responses. This is particularly relevant in the context of a telephone survey, as this may be more onerous for merchants than an online survey.
- 2.35 Additionally, there may be a bias in terms of which merchants decide to respond to the survey, and which merchants, given broader commitments of running and operating a business, would decline to participate. This bias may be correlated with the sector in which a merchant operates, a merchant's turnover, or other characteristics of merchants that are important for gaining an accurate understanding of merchants' views of card-acquiring services. We would be keen to understand from the PSR what steps are planned to mitigate potential bias in the responses to the merchant survey.
- 2.36 Finally, we note that the PSR intends to conduct cognitive testing and a pilot of the merchant survey. We would welcome the opportunity to comment on the proposed approach to the cognitive testing and pilot, as well as the opportunity to see the outputs from the testing and the pilot.

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