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Payment Systems Regulator
12 Endeavour Square
London E20 1JN

30 July 2024

Submitted by email: schemeandprocessingfees@psr.org.uk

Dear Sir/Madam,

Payment Systems Regulator Market review of card scheme and processing fees Interim report Consultation paper

The Panel welcome the opportunity to respond to the Payment Systems Regulator (PSR) consultation on the interim report on its Market review of card scheme and processing fees.

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

While the Panel's focus is predominately on the work of the FCA and the analysis and the recommendations outlined in this report are more directly addressed to scheme operators, card issuers and acquirors, we are responding to this consultation because payments are one of the cornerstones of the financial system and essential to consumers.

Payment charges have a direct impact on merchant costs and therefore the prices consumers pay for goods and services. SMEs and smaller merchants, which benefit neither from economies of scale nor bargaining power, are particularly affected by rises in card charges and typically pay the highest fees, in many cases also effectively providing a subsidy to the larger merchants.

As the report recognises, credit and debit cards are the most popular way to make retail payments in the UK, most particularly spontaneous retail payments¹. Visa and Mastercard account for 99% of UK card payments

¹ <https://www.psr.org.uk/media/pcvem3ug/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf> p5

and 84% of all UK retail payments². With the decline in the use of cash and growth in use of cards linked to digital wallets and no immediately viable alternative, we expect the dominance of cards – and therefore these two providers – to continue. Addressing any abuse of the dominant position they are exerting is therefore urgent and vital.

The PSR’s provisional findings show that the overall fee levels charged to acquirers by Mastercard and Visa have increased by more than 30% in real terms over the last five years, with little or no link to changes in service quality³. It is of particular note in our view that the two providers, whose business models explicitly benefit from economies of scale, effected this increase at precisely the same time that they benefited from the increasing reliance on and usage of card payments in the United Kingdom and increased UK cross-border interchange fees⁴.

The PSR has rightly observed that the two providers’ margins are higher than would be expected in competitive markets. They are not alone. The providers’ margins have repeatedly been greeted with incredulity by the financial press⁵ and with frustration by policymakers, for example in the US⁶.

The PSR also notes that the information the providers publish lacks transparency. This lack of transparency appears to be pervasive in the providers’ behaviours, suggesting deep-rooted patterns of deliberate obfuscation. We found two particular items of note that would seem to support this in the PSR’s report. Firstly, and despite the geo-locational richness of card data and the efficiency with which the two providers appear to run their businesses, the information that the providers submitted to the PSR presented the regulator with “significant challenges

² <https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf> p20

³ <https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf> p4

⁴ <https://www.psr.org.uk/our-work/market-reviews/market-review-into-cross-border-interchange-fees/>

⁵ <https://www.ft.com/content/2515b713-f170-41e2-9995-5cd18b54ea6a>
<https://www.economist.com/business/2020/03/21/how-visa-became-the-top-dog-in-global-finance>

<https://www.economist.com/finance-and-economics/2022/08/17/can-the-visa-mastercard-duopoly-be-broken#>
<https://quartr.com/insights/company-research/visa-and-mastercard-the-global-payment-duopoly>

⁶ <https://www.judiciary.senate.gov/press/releases/durbin-statement-on-visa-and-mastercard-settlement-with-us-merchants-to-address-excessive-swipe-fees>
<https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240424~12ecb60e1b.en.html>

in looking at their UK profitability on a standalone basis". Their apparent inability to trace revenues and allocate costs seems unlikely.

Secondly, we were struck by the disparity in fee increases faced by merchants as summarised from their responses in 6.98. In our view such significant differences are only possible to effect in an opaque landscape and would therefore seem to underscore a deliberate and prevailing lack of transparency in the card market.

Given the clear lack of competitive constraints, the growing cost of retail payments, the increasing dependency on the two providers and their deep and growing entrenchment within the fast-evolving payments landscape we strongly support the PSR's work in this area. We agree with the PSR's conclusion that the two providers do not face constraints on either the acquiring side or on the issuing side.

We support the remedial measures the PSR is considering promoting better outcomes in the card scheme market – namely:

- requiring more detailed financial reporting from Mastercard and Visa;
- improving transparency to enable merchants and acquirers to make better-informed decisions; and
- placing obligations on Mastercard and Visa to explain, consult on, and document the reasons for price changes and the pricing of new services.

Like the PSR we agree that for the most part there are no viable alternatives for merchants – particularly smaller merchants – to steer consumers to. Absent such alternatives, remedies requiring merchants to actively steer their customers to choose a more beneficial payment method would not be effective in addressing the issues identified in this market review. We would therefore also strongly encourage the PSR to continue its work on Open Banking which could, over time and if properly and safely implemented, present a viable alternative to card payments.

This said, we believe that alongside the proposed remedies and the PSR's engagement on Open Banking, there is urgent work to be done on ensuring consumers and merchants are aware of and understand the implications of different payment options – in particular the costs and protections that different payment methods offer.

The fees the two providers charge to merchants are built into the price of goods. Merchants must set those prices for consumers, whether consumers pay with cards or not. Any increase in card charges therefore

immediately has a direct inflationary impact. This inflationary impact prejudices all consumers, but most particularly harms smaller merchants and the poorest consumers.

This is because while consumers pay the same cost for goods or services, irrespective of the instrument they use, most smaller merchants also pay blended fees, meaning that they pay the same rates irrespective of the type of card used and the type of transaction made. Coupled with the higher card charges that SME's face overall, this results in SMEs being charged more in percentage terms for, say, weekly shopping baskets, than large retailers and travel merchants are charged for white goods or flights. This is due to both merchant and consumer (likely unwittingly) subsidising the insured promise of credit cards in relation to eg white goods or flights, when selling or paying for essential food or incidental day-to-day items. This subsidy is pervasive across our day to day lives, enriching the providers, harming consumers, and proving most prejudicial to the most economically vulnerable who are the least likely to benefit from the protections or rewards they are implicitly paying for.

It is only when armed with knowledge about different payment types and costs that merchants would be in informed positions to effect steering and that consumers would be able to make informed and appropriate choices.

We would like to end by taking the opportunity to set out our view of what a well-functioning payments landscape looks like for UK consumers. As in all areas of financial services, we believe that money providers and payments firms should have a duty to act in the best interests of consumers. The system should also be guided by the following principles:

- **Accessibility** - All UK consumers must be able to pay and be paid. The system must be accessible to all.
- **Fairness and affordability** - The cost of making payments should not exclude particular consumers, businesses, or transaction types. It should not cost more for the poorest to pay.
- **Reliability & resilience** - Individual payment systems must be robust and reliable with appropriate redundancy measures in place to ensure continuity of service in case of need. The failure of individual providers should not result in consumer losses.
- **Sustainability** - The Payment System should be operated on an economically sustainable basis. The failure of individual payment systems should not result in consumer losses.
- **Safety, security and consumer protection** - The Payment System must be safe and secure. It should offer consistent protection to consumers, including against fraud and losses as a result of firm failure.

- **Transparency** –The costs and protections associated with using different providers must be clear and easily understandable. Providers should offer full transparency about how end users' data is used, by whom and to what end.

We thank you for the opportunity to respond to this consultation.

Yours sincerely,

Helen Charlton

Chair, Financial Services Consumer Panel