the payments association

connecting the future

Market Review into card-acquiring services

PSR

January 2022

Response from The Payments Association

Introduction

The Payments Association welcomes the opportunity to contribute to the PSR "*Market review into card-acquiring services*".

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

We are grateful to the contributors to this response, which has been drafted by Riccardo Tordera, our Head of Policy & Government Relations. We would also like to express our thanks to the PSR for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK's payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

With special thanks to:
- Annemarie Mahabir, Principle Industry Consultant, Endava
- David Parker, CEO, Polymath Consulting & The Payments Association Ambassador
- James Hunt, Subject Matter Expert, Feedzai
- Mark McMurtrie, Director, Payments Consultancy LTD & The Payments Association Ambassador

Tony Craddock
Director General
The Payments Association

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

1. Do you agree that summary boxes would improve merchant ability to search and switch between acquirers?

Summary boxes could help through simplification and transparency but there is no consensus between our members on this as a summary may not be able to provide the level of information the merchant requires to make the right decision.

However, we think that merchants of all sizes could access greater financial savings by being able to review payments acceptance solutions from open banking providers alongside alternative card payment providers.

2. Do you think bespoke merchant summary boxes provided individually to merchants by their provider and generic summary boxes provided to all customers and potential customers on provider websites would both be helpful to improve merchant engagement?

This depends on what information is included. It is important to balance providing additional transparency with enabling competitive pricing in a complex market and ensuring merchants can make informed decisions. We think that what is most needed is to provide merchants with the details of card payment transactions with all the charges clearly listed. Micro merchants may benefit from bespoke summary boxes but this additional administrative burden may incur cost and take time, so the costs may outweigh the benefits.

3. Please provide views on information which should be included in summary boxes, and how it should be presented to support like-for-like comparison of services by merchants. Respondents may include indicative mock summary boxes with their responses, in bespoke or generic formats or both.

Transparency of prices is essential, but the pricing models used are often complex, which makes a valid comparison difficult. If summary boxes are going to be implemented, they will need to have all the information required to make theoretical transaction pricing realistic, accurate and comparable. Some members would like to see typical debit and credit cost at distinct price points, such as £10, £25, £50, and £100, as well as information on payment method, country, processing fee and scheme interchange fee.

This would highlight what we see as the main challenge that needs to be properly addressed, which is that each merchant has differences in average transaction values, the number of international customers and the split between face to face and digital payment volumes. This often has a significant impact on charges. So, all of these would need to be catered for, with separate fields or boxes.

4. Which merchants would benefit most from the implementation of summary boxes? Should summary boxes be designed and targeted to support any particular group of merchants? Please provide evidence to support your response.

There was consensus that smaller merchants would be the main beneficiaries. They may have less understanding of how card acceptance fees are calculated and really value being able to see what they are being charged clearly and to be able to make comparisons so they can get the best prices. Increasingly, merchants of all sizes are integrating payments acceptance with other devices / applications such as cash registers / IPOs and trading systems, so this should help them make accurate price comparisons.

5. Please provide any comments you have on the potential for DCTs to help merchants search and switch between providers of card-acquiring services where they want to. Please provide evidence to support your answer.

DCTs are already helping smaller merchants to review suppliers. These, however, only present a subset of suppliers prices and often are influenced by the incentives provided by the acquirer to the DCT. A tool to help with switching would help new businesses in particular. because DCTs would show how merchants can save time and effort.

However, we support the view of the PSR that the chances of success of a DCT will be greatly improved if this is not a regulatory solution and instead is built on a viable and long-term business model.

6. What do you think are the main obstacles to development of DCTs in the card-acquiring market, and how could these be overcome?

The complexity of this subject is an obstacle itself. However, the major obstacle for merchants is the lack of understanding about how they are charged and how much this is costing them. This is because there are three main price methodologies in the UK market – IC++ / blended pricing / fixed transaction pricing – would need to be catered for. The full list the DCTs would need include pricing from the 20+ acquirers operating in the UK market and support all the ISOs partnering with them. Additionally, the DCTs must be able to support the mix of sales channels and payment options used by merchants.

Moreover, the publication and sharing of the fee structure from acquirers and processors is a challenge. Hence, some of our members would welcome regulation that makes it mandatory as is the case for open banking or, failing that, ways to effectively incentivise participants to do so. This would ultimately benefit acquirers and processors, despite the challenges of the rollout.

Other members, however, would encourage caution against the recommendation of mandating prescriptive requirements such as the publication of pricing information. As mentioned above, given the time constraints of many business owners, in particular SMEs, it is likely that level of engagement that businesses will give to any form of comparison tool for acquiring services will be predicated on the simplicity of that tool.

7. What information do you think should be provided to merchants by DCTs?

Information should come from the merchant (input). It requires a sophisticated system such as: transaction volume, value, type, whether they are cross-border, deal with tax, implications of downtime, number of terminals, and ideally the transaction number per scheme as well.

Further, we would like to see the current annual pricing, projected pricing from new suppliers, and alternative pricing options.

8. Do you agree that provision of pricing and other comparable service information to DCTs by providers of card-acquiring services would help stimulate the development of DCTs in the card-acquiring market?

We do not wish to comment.

9. Would merchants feel comfortable and confident enough to share their card-acquirer transaction data with DCTs? Are there barriers to this, and how should they be addressed?

It would vary by merchant. But the primary need is for a simple way to share the information as these merchants are short of time and have other higher priorities.

Alternatively, if merchants are not willing to share it, this information could be gathered from the processor or acquirer, who would already have full view of all the merchant transactions. Of course, this will have to be with the merchant's approval, and if a market-led solution was not in place that enabled open and transparent pricing, regulation requiring the processor to share pricing information should be seriously considered.

10. Please provide your views on whether merchants are likely to have confidence in DCTs in the card-acquiring sector, and what could be done to improve this.

Merchants would have confidence in a well-structured tool, as long as the information is accurate, comprehensive, objective and corresponds to what is on the website of the acquirer or processor. We would appreciate consistency in the various formats enforced by regulators and publicity around the availability of DCTs.

11. Which merchants would benefit most from DCTs? Should DCTs be designed and targeted to support any particular group of merchants? Please provide evidence to support your response.

Smaller merchants would be the primary beneficiaries but medium size ones would also find it helpful as larger merchants will inevitably use their own analysis and expertise.

12. Do you agree that provision of information by providers of card acquiring services to prompt merchants as the ending of their

initial term approaches, and annually thereafter, could improve merchant engagement?

Our members have different views. Some consider this to increase merchant churn, others think this would give merchants the option to switch to a better deal, encouraging merchant engagement. However, changing their supplier may not be a priority for merchants.

13.   Do you agree the PSR should concentrate on investigation of information trigger remedies rather than fixed-term contracts?

Yes, because fixed-term contracts are very complex, and will take longer to address, even though this does need to happen in due course.

14.   What is the best time to deliver trigger messages to merchants in relation to the ending of their contract minimum term, and thereafter? Please provide evidence to support your view.

The timescales would vary depending on the size of the merchant. Large and medium size merchants would need more time to make decisions on changing suppliers as this would have more ramifications and involve greater complexity. Our members agreed that a period between three to six months before the end of the contract term would be acceptable.

15.   Please comment on the content of potential merchant prompt messages. Please provide any views you have on the following categories of information and others you think would be helpful:
• Information on the purpose of the communication
• How much the merchant paid for their card-acquiring services in the previous 12 months
• The amount that the merchant would save by switching to the lowest-priced option
• Information on non-price benefits of switching
• Information on POS terminal switching
• Information on how switching works, and what merchants should do if they wish to switch
• A call to action

All this information is helpful and would encourage merchants to review their options.

16.   What is the best method of delivering trigger messages to merchants? Please provide evidence to support your view.

Some of our members think emails would be the best option, as it would give merchants the time to review trigger messages in their own time and puts the onus on the merchants to make the decision.

Others have highlighted that invoice statements, sent electronically to the POS terminal, would enable communication of multiple messages. This is possible because the latest

android payments terminals all support electronic messages on the device, and this method of communication generates higher merchant engagement.

17. Which merchants would benefit most from trigger messages? Should trigger messages be designed and targeted to support any particular group of merchants? Please provide evidence to support your response

Smaller merchants should be the priority and will have the most to gain.

18. To what extent could the feature of concern we identified resulting from POS terminal leases be addressed by (a) replacement of terminals by POS terminal lease providers to support merchants switching between acquiring services (b) POS terminal portability (c) a combination of these (d) another solution? Please provide evidence to support your answer.

Our members expressed concern that changes to terminal rental or leasing contracts may have negative impacts and result in fewer merchants being able to accept card payments or being faced with higher monthly fees. POS terminal portability is worth considering but is complicated (see 19, below).

19. Please explain whether you think POS terminal portability would be technically possible, and explain your response. What other technical remedies are available to address the feature of concern?

POS terminal portability is technically possible, but also complex and time-consuming. We observe that the current mixture of message protocols, accreditation and certification requirements, and security best practise make terminal portability often impractical without physical swapping of the device, even with the same POS terminal provider.

20. Do you think reform of POS terminal lease contracts is needed to address POS terminals and POS terminal contracts that prevent or discourage merchants from searching and switching provider of card-acquiring services?

Some of our members would welcome reform to allow more flexibility to give merchants more power to switch. However, we fear negative consequences may arise unless the reform is fully thought through. An analogy to consider is that mobile phone handset contracts end at the same time as the associated data plan.

21. What impact will new technology and/or changes in merchant and customer behaviour or expectations have on this feature of concern, and what are the likely timescales of these impacts?

The major technology change for small merchants over the next few years is the elimination of the need for a hardware device as merchants with more occasional use can accept a card payment through a software-only acceptance solution, commonly called "softpos", although the merchant's smartphone may not be suited to high volume use. This works by just downloading an app on to the merchant's smartphone. In addition, the move to 'pin on glass' and higher contactless limits remove some need for POS.

22. Would the introduction of POS terminal portability have commercial impacts on POS terminal lease providers, or in other parts of the value chain? Please provide evidence to support your answer.

Yes, it will have impact because the hardware stock and inventory are usually paid for by the acquirer well in advance, so it will be difficult for them to manage this from a financial perspective. We would welcome a separate consultation to address POS-related issues properly.

23. Please give us your views on monitoring merchant and consumer outcomes in the card-acquiring market. Also, the methods we should use to assess the effectiveness of remedies put in place to address the features of concern identified in the market review. What metrics should we measure and track to do this, how should the information be collected (for example, via merchant surveys and/or data collection from providers), and how frequently? We are also consulting on our approach to the CBA for remedies (see the annex).

We would be grateful to receive responses from all stakeholders on these questions.

Methods suggested by our members include merchants surveys and data collection from acquirers and processors. These would feed a very comprehensive view from both sides.

In terms of metrics, the key consideration is the average cost that businesses are paying for their card acquiring and POS terminals. Merchant metrics could include: type of payments used, merchant fees (cost of the merchant), processing fees, interchange fees, transaction volume for each type of card, value of the transaction (range of values of the transaction).

24. Please comment on our approach to the CBA for remedies to address the features of concern in the card-acquiring market.

Most of our members do not wish to comment. Some agree with the proposed approach. Others believe that in general, a non-prescriptive, outcome-based regulatory approach is likely to deliver the best outcomes in such a complex and dynamic market. Further, an industry-led approach focused on trialling and testing different solutions is likely to drive better innovation and discovery and enable a more transparent and open market for acquiring services.

25. What categories of benefits and costs should be included in the CBA? Please provide evidence to support your ideas.

We believe all categories of costs should be included. Namely, cost of acquiring, typical card transactions fees and costs of running a POS terminal. Any benefits the merchants would get for switching such as lower fees, shorter leases, easier switch and reliability of the service (measured by downtime) should be provided.

When considering the assessment of the remedies, we encourage the PSR to show that the proposed remedies produce net benefits for both merchants and consumers.

26. Over what period do you think we should assess benefits and costs for the CBA? Please provide evidence to support your view.

Every two years would be optimum. It's a lot of information to put together and it would create an unnecessary burden if it was required too often.

About The Payments Association

The Payments Association (previously the Emerging Payments Association or EPA) is for payments institutions, big & small. We help our 180 members navigate a complex regulatory environment and facilitate profitable business partnerships.

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

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

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

These activities include a programme of monthly digital and face-to-face events including our annual conferences PAY360, Financial Crime 360 and Digital Currencies 360, and our Pay360 Awards dinner, CEO round tables and training activities.

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

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

See www.thepaymentsassociation.org for more information. Contact malik.smith@thepaymentsassociation.org for assistance.