

## Written evidence submitted by British Retail Consortium

The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry which is going through a period of profound change, accelerated by the pandemic. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slowing.

The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.

### Introduction

1. The BRC welcomes this call for evidence into the work of the Payment Systems Regulator (PSR). We have been raising concerns about the operation of the card payments market for several years. The pandemic has accelerated the decline of the use of cash in retail transactions, partly because of greater use of online shopping, but also for in-person transactions. A focus on the costs of processing credit and debit cards payments is thus more pressing than ever.
2. The cost to the retail industry of processing card transactions remains very high. Cards account for 67% of retail transactions, but 80% of retailers' cost of collection. Credit and charge cards remain most expensive, still accounting for 32% of payment costs (£420m), yet just 13.5% of transactions. The average transaction cost of a credit card measured in pence per transaction stood at 15.4p in 2020, down from 18.4p in 2019.
3. Retailers also spent at least £620m to process debit cards in 2020, accounting for 48% of retailers' payment costs. The average transaction cost of a debit card measured in pence per transaction increased to 7.18p in 2020 from 5.88p in 2019.
4. Merchant Service Charges (MSCs) for card processing, measured in pence per transaction, increased by 6% in 2020 on average, through a 4% jump in debit cards MSCs from 6.71p to 7.01p, and a 9% jump in credit and charge card MSCs from 13.88p to 15.07p. Much of the increase was driven by a 32% increase in acquirer fees, however it is important to note that the entire MSC is recorded as an acquirer fee when retailers cannot or do not provide a breakdown of their (acquirer, scheme and interchange) fees for the BRC.
5. These increases on card fees and charges levied on UK merchants add to the substantial evidence of anti-competitive behaviour in the card payments market, including that which the PSR has gathered in the process of its Market Review on the supply of card acquiring services.
6. It has been 30 years since the BRC first raised complaints about the operation of the card market, in particular Visa and Mastercard merchant fees. In 1992 the BRC made a complaint

to the European Commission that Visa and Mastercard interchange fees unlawfully restricted competition.

7. We have consistently raised this issue since then:
  - In 1999, the Annual BRC 'Costs of Collection Survey' report (now Payments Survey) highlighted excessive card costs, following HM Treasury's 'Competition in Banking' Review.
  - In 2015, the Interchange Fee Regulation (IFR) was introduced across the EU after a generation of pressure from UK & European business. It promised to "cut the cost of payments substantially for merchants, especially SMEs and that in turn should lead to a fall in consumer prices". In practice, it only regulated some interchange fees and no card scheme fees. The BRC raised this issue with Government.
  - In 2017, the BRC filed a formal complaint to the PSR about "the recent surge in [UK payment card] scheme fees and other charges for processing credit and debit cards". No formal response was ever received to this.
  - In 2018, the BRC called again for "Action [...] on card fees" noting that "Increasing card costs shouldered by the retail industry have been driven entirely by scheme fee increases [...] of 39% in 2017" and that "Since [the IFR], card scheme fees have increased by £1bn in the UK and there has been a proliferation in the range of fees themselves"
  - In the same year we also made a submission to the Chancellor highlighting payments regulation as one of the five most important concerns to the retail industry
  - In both [2019](#) and again in [2020](#) the BRC called for action on card fees. In 2020, we stated that: "The card schemes levy hundreds of fees on transactions across countless variables [...and that such complex] billing structures have further become a powerful tool to bamboozle political, regulatory or legal attempts to rein in increasing abuses of the schemes' dominant market positions, which has seen scheme fees billed to merchants double since implementation of the IFR ([based on the PSR's own evidence in the PSR] Card-Acquiring Review, Interim Report)"
8. In 2020, BRC, BIRA, ACS, FSB, and UKHospitality also jointly called for immediate action to tackle soaring card fees which added to the price of goods and services, calling on Parliament (via the Treasury Committee) to urgently intervene. This call was not acted upon and was repeated in 2021.
9. The BRC's repeated calls for action were echoed in 2021 by a letter signed by almost 40 MPs calling for the PSR to institute robust regulatory measures on card fees.
10. Finally, in late 2021, the PSR confirmed that it had "approved an additional phase of work that will look into how well this (card) market is working, including the issue of increasing card fees. If necessary, we will intervene to address any issues we identify."

11. It appears that the Regulator has finally made a welcome commitment after widespread coverage of both Amazon's decision to no longer accept certain payment cards and the research by CMSPI, in conjunction with the BRC, revealing post-Brexit fee increases of up to 475%.
12. It is worth noting that other related measures are having a material impact on the fees payable by merchants. The implementation of Strong Customer Authentication is a good example. In some cases the fees have doubled from the old 3DS1 fee of .022 Euros per transaction to the new 3DS1 fee of 0.44 Euros. Clearly costs continued to be passed on to retailers.
13. Retailers report that the increases in fees are slowly compelling them to give closer consideration to alternative payment methods beyond traditional card schemes. This has been compounded by the reduction in cash usage for some retailers, which has driven rising cost of payments resulting from increased card use.
14. Now that a commitment has been made to "look into" card fees, the questions become what action the PSR will take, if any, and how long do British business and consumers have to wait for its delivery. The expertise of the retail industry is at the PSR's disposal for the immediate development of robust measures to tackle anti-competitive card fees which should include consideration of:
  - ABOLITION OF INTERCHANGE FEES: The PSR should use its existing powers to abolish card interchange fees in the UK. This would bring regulation into line with the decisions of UK courts, in particular the 2020 Supreme Court judgment that Mastercard and Visa interchange fees are unlawful.
  - REGULATION OF SCHEME FEES: The PSR should use its existing powers to bring scheme fees within scope of the UK IFR. The level of scheme fees must be subject to "utility-style" economic regulation. This is what the PSR was set up to do.
15. The BRC would be pleased to provide the Committee with further written or oral evidence to support the case for scrutiny of the PSR's promised review of card fees. We would particularly ask the Committee to seek clarity on timescales, scope and opportunities for third party engagement with the review.

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