

# **Payment Systems Regulator:**

## **Market Review into the supply of card-acquiring services**

### **ABTA response – September 2018**

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 £37 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: existing regulation and the travel industry**

In recent years, 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 second Payment Services Directive.

The IFR, which was introduced in 2015, was designed to cap interchange fees for card payments - at 0.3% for credit cards (previously at 0.8%) and 0.2% for debit cards (previously charged on a pence per transaction basis). The theory was that this move would reduce the cost of taking card payments across the board, as the interchange fee is the largest of the three component charges within the Merchant Service Fee. The other two charges are those paid to the acquirers, and the scheme fees due to Visa and MasterCard. The IFR was intended as a path-clearing regulation, which would lower the cost to businesses (merchants) of taking card payments. Policymakers explained that, by lowering of the costs associated with taking consumer card payments, the IFR would reduce the impact of the latter regulation, PSD2, which prohibits surcharging when taking consumer card payments.

However, the IFR has failed to reduce the cost of taking card payments within the UK, and HM Treasury acknowledged as much when implementing PSD2. As a result, the cost to businesses associated with the implementation of the surcharging ban has been greater than expected, especially for SMEs and those who experience high average transaction values – both characteristics common in the UK travel industry. As ABTA outlined in a recent letter to Treasury Minister, John Glen, the combined impact of the IFR and PSD2 on the travel industry can be summarised as follows:

- The PSD2 prohibits surcharging for all consumer card payments;
- As a result of the ban on surcharging the comparative attractiveness of paying on cards is increased, and many travel businesses are reporting a significant shift towards increased usage of cards for payment;

- However, travel businesses still face sizeable costs for the processing of card payments. Research conducted by ABTA demonstrates that more than half of travel companies are facing higher costs than they were in 2015;
- For tour operators, especially SMEs, this leaves little choice but to increase headline prices across the board;
- However, retail travel agents – the vast majority of whom are SMEs – do not control the price of the product they sell (set by the tour operator or travel service provider). Agents earn commission on completed sales, which will typically be around 10%. Card fees typically account for 2-3% of the cost of a holiday, and make up a significant proportion (20-30%) of an agencies retained revenue. This leave travel agencies facing a variety of unattractive options:
  - Absorbing the cost, which is unlikely to be viable for many businesses;
  - Adding a booking fee to all bookings, which will make the product less attractive, and penalises all consumers - not just those that pay by card;
  - Refusing to take card payments, which leaves the business less appealing to consumers and reduces their competitiveness.

We believe the impact on travel businesses is exacerbated by gold-plating undertaken by the UK government. The UK government has opted to extend PSD2 into areas not directly covered by the EU legislation, including the banning of discounting, and has also included premium card brands, such as Amex, within the scope of the surcharging ban.

ABTA research revealed that more than half of travel companies are now facing higher costs for card payments than in 2015, and very few are making any notable savings. It is clear to us that those smaller businesses, which are less able to negotiate with acquirers for better deals, are being hit particularly hard by the regulation. Further, ABTA has uncovered a serious lack of transparency throughout the payments chain relating to the different charges applied by acquirers, particularly in relation to information made available to merchants.

As a result, ABTA warmly welcomes the announcement by the PSR that a Market Review will be conducted into the card-acquiring marketplace, as well as the opportunity to provide feedback on the terms of reference proposed for this review. We look forward to engaging in a constructive manner with the Market Review once published.

### **Responses to consultation questions**

#### **Question 1: Do you agree with our description of card-acquiring services?**

ABTA agrees with the description of card-acquiring services.

#### **Question 2: Do you agree with the proposed scope of the market review?**

ABTA agrees with the proposal to focus on how card-acquiring services are working for merchants. We believe the failure to adequately consider the perspective of merchants, and particularly SME businesses, when legislating in this area over recent years has been a major factor in the creation of a non-competitive marketplace for card-acquiring services, which has failed to meet the needs of merchants and ultimately also fails to serve the best interests of consumers by keeping costs for payments artificially high.

ABTA also agrees with the intention to focus the review on an analysis of card-acquiring services for Mastercard and Visa. These companies are by far the largest scheme 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 increases in scheme fees in recent years. However, it is very difficult for merchants to assess the rationale for these increases, or indeed to understand the level of increase in terms of precise impact on their costs, as acquirers are not currently obliged to set these out fees – or their own acquirer fees - in a clear, unambiguous manner. We believe an effective review should consider the entire payments chain, including how each element of the merchant service charge interacts.

While we welcome that the review will examine how scheme fees are calculated, 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. If the PSR maintains the view that an analysis of scheme fees is out of scope for this review, 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.

**Question 3: Do you agree with our proposal to focus on card-acquiring services for Mastercard and Visa?**

As referenced in response to question 2, above, ABTA agrees with this proposal.

**Question 4: Do you agree with our proposed approach?**

Taking account of the comments made in response to question 2, around the inadequacy of the existing scope of the Review, ABTA agrees with the proposed approach.

**Question 5: do you have any comments on the specific issues of interest, including whether there are additional issues we should consider and whether the issues identified have the potential to be relevant for the market review?**

ABTA does not wish to make any additional comments on the review at this time.

**More information:**

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