**[Insert address of MP]**

**[Insert Date]**

**Dear [Insert name of MP],**

**Implementation of the Payment Services Directive 2 (PSD2) and Interchange Fees Regulation (IFR)**

I write today, as the **[Director/Manager/Owner – DELETE OR EDIT AS APPROPRIATE]** **of [insert business name]**, a **[travel agency/tour operator – DELETE AS APPROPRIATE]** located in your constituency, to raise my serious concern with the UK government’s approach to card payments regulation. We are a member of ABTA – the UK’s largest travel trade association.

In particular, I want to express my serious concern relating to the effect on travel businesses of the government’s failure – as acknowledged by HM Treasury - to ensure effective enforcement of the EU’s Interchange Fee Regulation (IFR), which came into force in 2015. The effect of this failure worsens because of the government’s approach to implementing the EU Payment Services Directive (PSD 2), which entered into force in January.

As you may be aware, the EU IFR was designed to cap the interchange fee paid between a merchant acquirer, which is the company that facilitates card payments for my business, and the card issuing bank. This fee is one of three charges levied that makes up the overall Merchant Service Fee, alongside the acquirer fee and that paid to the schemes (Visa/Mastercard), and historically was recognised as the largest of the three. The theory went that capping the interchange fee at 0.3% for credit cards (previously at 0.8%) and 0.2% for debit cards (previously charged on a pence per transaction basis), would reduce the cost of taking card payments across the board. This would then pave the way for the elimination of card payment fees with the introduction of the PSD2, which came into effect two-years later.

However, in reality the IFR failed to reduce the cost of taking card payments within the UK. HM Treasury acknowledged this fact in their recent response to their consultation on implementing the PSD2. As such, the implementation of the PSD 2 on businesses has been greater than expected, and particularly for businesses like mine that have high average transaction values. However, despite acknowledging the failure to enforce the IFR, the government has chosen not only to implement the PSD2 but also to gold-plate the Directive, extending the surcharging ban to all payment types, including all consumer cards, and by prohibiting permitted activities, such as discounting.

The regulations affect travel businesses in the following way:

* The PSD2 prohibits surcharging for all consumer card payments, and provides minimal benefits to consumers;
* Travel businesses still face sizeable costs for the processing of card payments. Research, conducted by ABTA – the travel association, demonstrates that more than half of travel companies are facing higher costs than 2015;
* For tour operators, especially SMEs, this leaves little choice but to increase headline prices across the board;
* However, travel agents – the vast majority of whom are SMEs – do not control the price of the product they sell, which is set by the tour operator. 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.

It is important to be clear that, prior to the introduction of the PSD2 businesses, like mine, have only been able to pass on the cost of taking card payments to consumers. As such, there was no clear consumer detriment in this area that required resolution. Indeed, consumers are arguably now less aware of the true cost of card payments as, in the majority of transactions, the cost will be hidden within the headline price.

ABTA recently conducted a member survey, following previous correspondence and meetings with HM Treasury and the Payment Systems Regulator (PSR), to monitor the implications of PSD2 and the IFR. This survey has shown that since the introduction of IFR, more than half of respondents (58%) faced higher costs, and very few were making any notable savings. Further, ABTA uncovered a serious lack of transparency throughout the payments chain relating to the interchange fees charged by acquirers and information made available to traders at the point of sale. ABTA has raised these concerns with the PSR, and is collecting clear evidence of breaches of the regulation relating to the failure of acquirers to meet their obligations to set out clearly interchange fees payable. ABTA has also raised the need for greater transparency and regulatory oversight elsewhere in the payments chain, especially concerning the rationale for recent increases in scheme fees.

ABTA will be replying to the current HM Treasury consultation on “card and digital payments in the new economy”, outlining in further detail the concerns of the UK travel industry. ABTA believes HM Treasury must consider regulation to provide proper oversight of the entire payments chain, including those fees within the Merchant Service Fee that remain unregulated, namely the fees charged by acquirers and the schemes. The latter of these fees, particularly, have increased notably in the last year, with no requirement for either of the scheme providers to justify these hikes. Given the market dominance enjoyed by the two scheme providers, Visa and Mastercard, it seems counterproductive to the objective of lowering the cost of taking card payments for this situation to persist.

As my local MP, I ask that you write to the relevant Minister within HM Treasury to pass on my concerns with the government’s policy, which penalises UK businesses, especially SMEs. I believe the Government must now urgently address – and act to reduce - the cost of taking card payments. The PSR has already announced a review of the UK’s card payments marketplace, which will focus on the areas already regulated by the IFR, but this does not go far enough.

Yours faithfully,

**[INSERT NAME]**

**[INSERT - Position, Business name]**

CC: ABTA – The Travel Association ([publicaffairs@abta.co.uk](mailto:publicaffairs@abta.co.uk))