7 February 2025

By email: cardfees@psr.org.uk

Re: Response to the PSR's Market review of UK-EEA consumer cross-border interchange fees - Stage 1 remedy consultation

Dear Sir / Madam,

I am writing to you on behalf of Payments Europe, the association of card-based payment solutions providers. Payments Europe members are active in Europe and the UK, representing card issuers, card acquirers, and card schemes. Our mission is to promote the value that card-based payments bring to the economy and society. We strive for a vibrant, competitive, safe, and consumer-centric payments market, supported by a balanced regulatory framework.

We appreciate the opportunity to engage with the PSR on the important topic of UK-EEA consumer cross-border interchange fees. As stated in earlier submissions, Payments Europe asserts that interchange provides the economics that underpin the key elements of an efficient electronic payment ecosystem. These include acceptance, innovation, security, fraud protection, and guaranteed payments to merchants. Hence, the interchange is crucial for a healthy ecosystem capable of driving acceptance among new merchants. As such, it should be high enough for new players to be incentivised to enter the space and low enough that merchants are encouraged to adopt digital payments.

We are concerned that the PSR's current view is that a outbound interchange should be capped at 0.2% and 0.3% for CNP debit and credit card payments respectively. Overall, Payments Europe does not believe that price regulation is the right way forward as it has several serious unintended consequences.

In addition, the PSR has not undertaken any analysis to support the levels proposed, which themselves were based on a flawed methodology, developed nearly 10 years ago for different market circumstances. Most notably, at a time when e-commerce was significantly less developed than today and CNP transactions constituted a very small part of card payments overall. Unfortunately, the growth in e-commerce has also attracted fraud to CNP transactions and the industry has invested heavily in advanced solutions to protect the ecosystem. These investments have a significant cost. Furthermore, the levels are not, and never were, the appropriate benchmark to use for cross-border transactions beyond the EU. In light of this, we believe it would be a mistake for the PSR to continue on the path set out in the final report, which would hurt consumers and businesses in both the UK and the EEA.

Below you will find our responses to the specific questions set out in the consultation.

Thank you again for the opportunity to provide feedback on this important topic. We look forward to continuing a constructive dialogue with the PSR. We remain at your disposal to engage further on this and provide further details or clarifications.

Yours sincerely,

Robrecht Vandormael, Secretary General, Payments Europe

Question 1: In light of our analysis of feedback received to date, do you agree that we should implement a price cap on CNP UK-EEA cross-border IFs in two stages, with the stage one cap being implemented whilst we develop and implement a methodology to calculate a stage 2 cap? Please provide reasoned views and supporting evidence for your response.

Payments Europe does not believe that a price cap should be implemented for CNP UK-EEA cross-border IFs. We also do not believe that a two-stage cap would provide any added value as price capping overall has several unintended consequences. In addition, we question the logic behind introducing an interim cap whilst analysing the right level for a permanent cap. The levels for the interim cap would be based on an arbitrary methodology, not fit for current market circumstances. Instead, we urge the PSR to continue analysing the market and gather further evidence around the immediate and long-term consequences of a price cap for interchange fees.

Question 2: Do you think that for the stage 1 price cap, capping IFs at the previous levels for outbound transactions (0.2% for debit cards and 0.3% for credit cards) would be appropriate? If you have made representations on this issue to us before, do you have any further points to make to us? Please provide reasoning and evidence supporting your views.

Payments Europe does not believe a 0.2% and 0.3% price cap would be appropriate. The EU rates were set nearly 10 years ago for domestic (and intra) transactions within the EU. They are not, and never were, the appropriate benchmark to use for cross-border transactions beyond the EU. The Interchange Fee Regulation's (IFR) approach to setting the same interchange for card-present (CP) and card-not-present (CNP) transactions is out of date and superseded by the 2019 Commitments approach of setting a higher rate for CNP, reflecting the obviously higher fraud costs of those transactions. By setting the same interchange level for CP and CNP transactions, the PSR would be adopting the old approach for the future.

Card present transactions have a very low fraud rates. This is true for both chip-and-pin transactions, which have close to zero fraud as well as contactless transactions, which have similarly low fraud rates, due to the limits imposed as well as the behind-the-scenes checks. The interchange fee caps imposed by the EU IFR were calculated mainly for chip-and-pin transactions. Card not present transactions and e-commerce was at its infancy when the EU interchange fee caps were introduced. Since then, they have grown exponentially, at pace with the huge growth in e-commerce. Unfortunately, these types of card transactions are more exposed to fraud attempts but the industry has worked hard to ensure that card not present transactions can be just as safe as card present transactions. This is not without cost, and the entire industry- from card schemes to issuers and acquirers- have introduced and invested in sophisticated fraud detection mechanisms to ensure that consumers and businesses are as safe when shopping online as in physical stores. Among other, this includes bespoke verification tools and use of global aggregate data to track fraud attempts in real time. The cost of these tools fall mainly on issuers and card schemes. As mentioned, this was acknowledged in the 2019 Commitments with the approach of setting a higher IC cap for CNP transactions.

Question 3: Do you consider any of the other levels would be more appropriate and, if so, why? In particular, please provide your views on 0.5%, 0.6% (which presents a more cautious approach relative to the potential for negative effects, including in relation to issuer costs), an alternative increment below 1.15%, 1.5%, and/or on a level of 1.15%, 1.5% (which would maintain current levels but prevent further increases). Please provide supporting evidence.

If a price cap is implemented, we believe it should not go below 1.15% and 1.5% levels set in the so-called 2019 Commitments. This would ensure a level playing field between the EU and the UK and also account for the higher fraud cost for CNP transactions.

Question 4: Do you agree we should implement the stage 1 cap 6 months after the direction? If not, should we (i) set a specific implementation date (for example, 1 October or 1 April) for entry into force of the price cap (even if this were to reduce the implementation period to less than six months); or (ii) set a date which is longer than 6 months? In either case, please provide supporting evidence for your recommendation.

We do not agree with the suggestion to implement a price cap. In particular, we do not agree with the approach to implement an interim price cap whilst further analysing the market. The interim price caps risks causing significant harm without the necessary policy impact assessment. In this and previous submissions we have presented argumentation and evidence around why price capping and the suggested levels is not the right policy approach. We would urge the PSR to take sufficient time to do a detailed analysis of the market over a longer time period before deciding on any policy response, in particular price intervention.

Question 7: Have we missed any adverse potential consequences of an interim remedy at 0.2%/0.3%, 0.5%/0.6% or 1.15%/1.5%? if so, please provide reasoned explanation and supporting evidence.

Payments Europe does not believe that price capping is the right solution, both as an interim and permanent policy. We believe there are several adverse consequences of price capping in general and we also question the approach of front-running a more detailed analysis with an interim cap. In general, price intervention should be seen as a measure of last resort and needs to be preceded by detailed study and analysis of the market. The payments market is under fast and constant evolution. In this context, it does not make sense to proceed with an interim cap, as this would risk harming existing market dynamics and constitute a heavy-handed market intervention. Setting an interim cap would be very damaging as there has not been thorough assessment of possible consequences. We understand that it has been challenging for the PSR to assess the potential impact of a price cap on EEA issuers and that that there is not sufficient evidence to prove a significant negative impact. However, if there is a lack of evidence, we believe the solution would be to not set a price cap or to set it at the highest possible level, not to cause undue harm.

Question 8: Do you agree with the potential impacts (costs and benefits) of a stage 1 price cap remedy we identified in our cost-benefit analysis? If not, which impacts do you consider to be unlikely to materialise or which likely impacts do you think we have not covered?

Payments Europe does not agree with the conclusions of the draft cost-benefit analysis. We regret that the PSR has not taken into account that the EEA 0.2/0.3% rates were set nearly 10 years ago for domestic (and intra) transactions within the EU. They are not, and never were, the appropriate benchmark to use for cross-border transactions beyond the EU. In addition, these caps fail to recognise the 2019 Commitments approach of setting a higher rate for CNP, reflecting the obviously higher fraud costs of those transactions. We also believe that the cost-benefit analysis is skewed towards cost-savings of merchants and acquirers and does not sufficiently take into account the adverse effect of price regulation for the system as a whole, as well as the increased costs and diminished economics for issuers, which will not incentivise issuer investment in promoting the use of card payments.