ACS Submission: Card-Acquiring Market Review: Draft Terms of Reference

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the draft terms of reference for the Payment Systems Regulator market review into the supply of card-acquiring services. ACS represents over 33,500 local shops and petrol forecourt sites including Co-op, BP, McColls and thousands of independent retailers, many of which trade under brands such as Spar, Budgens and Nisa. Further information about ACS is available at Annex A.

We welcome this market review to ensure the supply of card-acquiring services is competitive for all merchants. Only 11% of convenience retailers have seen reductions in the cost of processing card payments since 2016, compared to 57% having increases in their Merchant Service Charges (MSCs)[1]. There is a possibility that the benefits of the EU Interchange Fee Regulation (IFR) capping interchange fees are not being past on to convenience retailers and significant increases in card scheme fees from Visa and Mastercard have escalated card acquiring costs for retailers since January 2017.

We are concerned that the complexity of bills can undermine confidence from retailers to accurately compare card acquirers' offer. Some smaller retailers are still receiving 'blended' bills with no breakdown of costs, while retailers receiving 'interchange ++' pricing can struggle to forecast acquirer bills or account for costs outside the MSC when comparing acquirers. Poor transparency about costs and changes in MSC bills can act as a barrier to retailers understanding bills and comparing the wider acquiring market. Switching card acquirers can also be a burdensome process for retailers when handling possible changes in acquirer-supplied payment terminals and auditing PCI DSS compliance. These factors should be in scope of the review for their impact on merchant switching behaviour.

We have answered the relevant consultation questions below.

1. Do you agree with our description of card-acquiring services?

The description of card acquiring services provided is accurate and we have no suggested changes to make. Acquirers recruit merchants, including retailers, to accept card payments. An acquirer's core service is to authorise and settle transactions through the card scheme and ensure merchants comply with rules set by the card scheme. Acquirers can offer services beyond this, often leasing payment POS terminals to merchants. The provision of terminals influence merchant decisions on choosing or switching acquirers and are a valid consideration for the review, as detailed further at Q5.

[1] ACS Voice of Local Shops Survey: May 2018

2. Do you agree with the proposed scope of the market review?

There has never been a more volatile period in the costs of payments for retailers and we broadly welcome the scope of this review, which we support focusing on acquirers and payment facilitators. Most retailers will negotiate deals with acquirers that pass on other costs from along the supply chain. Payment facilitators are only used by a very small proportion of convenience retailers.

We understand the need for a focused remit and the indirect coverage of card scheme fees in the scope of this review as a fee passed onto merchants by acquirers. The draft Terms of Reference acknowledges that card scheme fees favour larger acquirers after Visa raised its pence per transaction fees this year[2]. Card scheme fees have risen significantly since January 2017, causing a shift in the proportion of fees included in the MSC for merchants after the interchange fee cap. The Regulator should analyse evidence it receives on card scheme fees through this review and be prepared to use its regulatory powers to remedy potential harm to merchants.

Only 11% of convenience stores have seen reductions in the cost of processing card payments since 2016 meaning it is unlikely cost savings from the IFR have been passed onto retailers[3]. Although the interchange fee cap has been implemented successfully retailers report this has often failed to result in lower MSCs per transaction, indicating that cost savings are either being retained by acquirers or not being passed onto smaller merchants.

Acquirers have continued to use 'blended' billing for some retailers processing a relatively low volume of transactions, which has prevented some retailers from observing caps in interchange fees as part of their MSC. These retailers can be told that providing an MSC breakdown or 'interchange ++' pricing model is cost-prohibitive. Blended billing is an existing barrier to transparency on fees, making it more difficult for these retailers to compare acquirers. The review should look at whether Article 9 of the IFR on billing is being applied appropriately and if further action is required.

Retailers are made aware by acquirers when their bills are changing but have difficulties determining why their bills are changing. When fees increase, acquirers typically inform merchants they are passing on increases from card schemes or other supply chain costs. Retailers querying cost increases when they have not matched increased card scheme fees or other costs struggle to gain further explanation of the changes to their bill.

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

We agree with the proposal to focus on card acquiring services from Mastercard and Visa specifically. This approach is sensible with 98% of transactions going through Visa or Mastercard and a non-exclusive focus will allow significant evidence on other card schemes

[2] Merchants set to suffer as Visa announces increases to scheme fees CMPSI. 12 September 2017
[3] ACS Voice of Local Shops Survey: May 2018

to still be considered. There is no realistic alternative to accepting Visa and Mastercard cards due to their duopoly in the card schemes market, all merchants are impacted by the fees they pass onto acquirers.

4. Do you agree with our proposed approach?

We support the approach outlined in the draft Terms of Reference to examining competition in the acquiring market. We are not aware of many alternatives to card acquiring services used in the convenience sector.

The Review should also examine how the fees charged by acquirers have changed since the IFR, including fees outside the MSC. Interchange fees have been capped but card scheme fees are increasing significantly, and retailers are not seeing reductions in the cost of processing card payments. Fees outside the MSC are adding to these costs, ranging from new acquirer authorisation fees, payment gateway fees, PCI compliance fees, setup fees, chargeback fees and minimum MSCs. These costs make it harder for merchants to compare the acquiring market and will influence how acquirers compete for merchants.

Convenience retailers buy acquirer services in a number of ways, with multiple retailers sometimes using payments consultancies to negotiate complex fee structures and find a deal on their behalf. Symbol groups will often have an agreement with their acquirer whereby the group provides permission for the acquirer to approach the symbol group's independent retailers. This may involve the symbol group recommending the acquirer to its independent retailers but the acquirer will conduct a business negotiation directly with the symbol group retailer, based on the type and number of card transactions going through that business.

Switching acquirers is especially complex for unaffiliated independent retailers. These retailers cannot draw on payments expertise or symbol group oversight when comparing the acquirer market. The complexity of fee structures and switching acquirers makes it difficult for retailers to find the best deal for them. ACS conducts a quarterly survey of 1,210 independent retailers, which we will use to gather more data on independent retailers' approach to card acquirers.

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 to the market review?

We welcome the review's specific focus on barriers to switching and comparison for merchants. There are barriers for merchants to compare and switch acquirers which can prevent retailers from getting the most competitive deal. For example, retailers often lease POS equipment from their card acquirer as an additional service in their contract. The IT processes needed to switch POS equipment without restricting the use of card payments for consumers is complex and a material consideration for switching acquirers for retailers.

Switching also requires merchants to ensure they remain compliant with PCI DSS (Payment Card Industry Data Security Standard). Retailers must organise a PCI compliance assessment and self-assess the validation requirements they must achieve to be compliant.

The IT changes needed to be compliant can be substantial and discourage switching acquirers, for example installing firewalls ant anti-virus software, encrypting cardholder data and monitoring networks. The Review should consider these barriers to switching acquirers for merchants, especially in relation to additional services that can be provided by the acquirer.

Retailers will often only consider changing acquirer when their existing contract ends. Fees outside the MSC are not always transparent and can discourage switching and gaining an accurate quote from an alternative acquirer is difficult due to the complexity of fees according to card used. The complexity and poor transparency of merchant bills for card acquiring services means price increases rarely precede market comparison behaviour.

For more information, please contact Steve Dowling, ACS Public Affairs Executive, via steve.dowling@acs.org.uk or 01252 533009.

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of around 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

ACS | the voice of local shops

WHO WE REPRESENT

INDEPENDENT RETAILERS

ACS represents 22,397 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES

ACS represents 14,659 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES

ACS represents 12,862 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls, Conviviality Retail and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR

In 2017, the total value of sales in the convenience sector was £38bn.

The average spend in a typical convenience store transaction is £6.28.

There are 49,918 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

The convenience sector provides flexible employment for around 370,000 people.

24% of independent/symbol stores employ family members only.

20% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

72% of business owners are first time investors in the sector.

Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

79% of independent/symbol retailers have engaged in some form of community activity over the last year.

Between August 2016 and May 2017, the convenience sector invested over £858m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,291 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk