ACS | the voice of local shops

ACS Submission: Market review into the supply of card-acquiring services

1. ACS (the Association of Convenience Stores) welcomes the opportunity to respond to 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.

2. Convenience retailers access acquirer services via several routes. Multiple retailers typically commission payments consultancies to negotiate complex fee structures and find a deal on their behalf. Symbol groups will often have an agreement with an 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.

3. 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. November 2020 polling of 1,210 independent and symbol retailers finds that 61% have not compared or switched acquirers in the past three years, while 48% of retailers who have compared in the past three years did not choose to switch[1].

4. We support the remedies proposed by the PSR but would encourage further action to amend the packaging of bills via the IFR, investigate scheme fees and help retailers establish their business needs from an acquirer. The key outcome of this review must be a far easier market for retailers to compare providers and switch to better deals. The payments industry is diversifying and innovating at a rapid pace and the PSR must act promptly and assertively to protect businesses and ultimately consumers.

5. We have responded to the consultation questions below. For more information, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk / 01252 533009.

Q1) Do you have views on the provisional findings set out in this report?

6. The report is an accurate reflection of our understanding of the acquirer market.

7. There are two key factors which demonstrate how rises in card payment processing costs are relatively acute for convenience retailers. Firstly, the report recognises that the interchange fee cap has failed to result in lower per transaction fees for retailers, indicating that cost savings are either being retained by acquirers or not being wholly passed onto convenience retailers. Secondly, the doubling of scheme fees between 2014 and 2018, mainly linked to transaction numbers than values, has disproportionately affected convenience retailers due to a low average basket spend (£7.46)[2].

8. There is a clear need to encourage competition within the acquirer market to prevent the escalation of scheme fees seen in that duopolistic market. The report shows how Barclaycard and Worldpay

[1] ACS Voice of Local Shops Survey: November 2020
[2] ACS Local Shop Report 2020

account for three-quarters of card transactions by volume and 60-70% of card transactions by value. Payment facilitators remain a very small part of the market and only suitable for very small merchants. Encouraging and enabling switching behaviour will be key to maintaining a diverse acquirer market.

Retailer Needs

9. We have identified with members the following factors which are key when approaching the acquirer market; price, fast settlement, ease of onboarding, assistance with legal requirements, customer service and omnichannel services. Considerable emphasis is given to fast settlement by retailers for cashflow purposes and related to onboarding, integrating effectively with ePOS till systems. Retailers value support with PCI DSS certification and the pandemic has caused 56% of retailers to now accept card-not-present payments due to the growth of home delivery from local shops[3].

Comparing Acquirers

10. The complexity of bills makes it very difficult for convenience retailers to accurately compare card acquirers. 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.

11. 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.

12. Increasingly complex fee structures make comparisons between acquirers more difficult to make. 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 monthly MSCs. These costs make it harder for merchants to compare the acquiring market and influence how acquirers compete for merchants.

Switching Acquirers

13. The following two issues can discourage switching behaviour and are often linked to a fear of costly downtime for acceptance of card payments.

14. Switching card acquirers can become a further elongated process for retailers when handling the switchover of acquirer-supplied payment terminals. Contracts for these terminals typically run for five-year terms and auto renew. The associated termination fees are a barrier to switching, especially as often this hardware only works with a specific acquirer.

15. Switching requires merchants to ensure they remain compliant with PCI DSS (the 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 and anti-virus software, encrypting cardholder data and monitoring networks. The process can take around three months. The IT processes needed to switch POS equipment without restricting the use of card payments for consumers is complex and a notable consideration for retailers.

[3] Covid-19 impact survey

Q2) Do you have views on the potential remedies set out in this report? What are the potential benefits, challenges and unintended consequences that may arise from these, both individually and as a package?

16. Remedies should focus on encouraging and enabling switching behaviour from smaller retailers to address the barriers detailed under Q1. Excluding retailers which do not accept card payments or were unsure, 61% of independent and symbol convenience retailers have not compared or switched acquirers in the past three years[4]. This supports the findings of the SME merchant survey and is too high for a functioning market.

17. We support all three proposed remedies and encourage the PSR to build on these further (see Q3).

Remedy One: Requiring all contracts for card-acquiring services to have an end date

18. End dates for acquirer contracts could provide a clear prompt for retailers to shop around. This is dependent on easily comparable pricing information and therefore the implementation of remedy three. Without this coordinated approach, there would be a risk of retailers being auto-enrolled onto new excessively priced contracts, as can occur after promotional periods expire within utility and telecoms markets. Retailers not interested in comparing or switching could simply sign another contract which provides continuity of service.

Remedy Two: Requiring changes to POS terminal contracts to; a) limit their length, b) ban contracts that auto-renew for successive fixed terms and c) make it easier to exit POS terminal contracts

19. Limiting the length of POS terminal contracts could encourage retailers to search out a better deal. The maximum contract length would need to strike a balance between encouraging switching behaviour and higher potential fees to cover hardware and installation costs. Banning the automatic rollover of contracts would provide a clear prompt to retailers to consider their options and a drop-off in service is unlikely as providers would be motivated to maintain their business.
20. We would also support banning termination fees from POS terminal contracts where that hardware does not have universal functionality across acquirer or ISO platforms and whenever terms or conditions are changed. Termination fees already do not apply in acquirer contracts longer than six months – the same should apply for POS equipment.

Remedy Three: Making it easier for merchants to research and compare prices

21. Two aspects are vital to researching and comparing prices effectively. One – access to data on the number, value and type of card transactions a retailer accepts or expects to accept. Two – accessible quotes from acquirers which are accurate for both expected MSC and non-MSC fees (see para 12). Without both of these requirements being met, higher levels of comparing and switching behaviour becomes unlikely.

22. Convenience retailers rarely understand what value-added service (non-MSC) fees they are paying, with fees often incoherent within the terms and conditions despite the real impact they have on monthly bills. Larger retailers in the sector are also frustrated about the transparency of billing information, which is typically provided in complicated formats and requires formal requests to access breakdowns.

23. Therefore, acquirers and ISOs should be required to provide pricing information in an easily comparable format. This could be done via amendments to the Interchange Fee Regulation (see para 25). Retailers are typically told by their acquirer that providing an MSC breakdown or

[4] ACS Voice of Local Shops Survey: November 2020

‘interchange ++’ pricing is cost-prohibitive, despite Article 9(1) of the IFR providing legal guarantees for all merchants to access full bill breakdowns.

24. We would also support actions which enable price comparison tools. There is one price comparison website (Cardswitcher) which works off business data estimates, but mainly provides quotes from ISOs. ISOs ultimately get a commission from acquirers and the data required still requires retailers to interpret their bills and gather related information.

<u>Q3) Do you think there are other remedies that we should be considering? If so, what remedies and how do you think they would address the concerns we have identified?</u>

Interchange Fee Regulation

25. The IFR already requires retailers to be provided with a full breakdown of acquirer costs. The implementation of this requirement requires review; the vast majority of convenience retailers do not receive breakdowns and are not aware of this entitlement.

26. The IFR should further support easily comparable pricing information by adding another line to interchange ++ pricing to cover all non-MSC fees. This would halt the proliferation of other fees and value-added services from making it harder to compare and switch. Retailers often want a ‘one stop shop’ solution on accepting card payments, so tend to want their acquirer to cover; managing the processing of transactions, associated hardware and PCI DSS compliance. Effective comparison tools would allow retailers to complete a checklist of services they want from an acquirer after assessing their business needs (see para 21).

Scheme Fees

27. The complexity of scheme fees does make it harder for acquirers to offer simpler pricing. The card schemes levy fees based on many variables, making it impractical to accurately forecast costs regardless of viable resource. This has made increases in scheme fees harder to interpret, although we recognise the PSR’s extensive work to establish that scheme fees have doubled between 2014 and 2018.

28. We believe the PSR should investigate the possible circumvention of the IFR by the card schemes. It is possible that the card schemes responded to the IFR by rapidly increasing scheme fees paid by card acquirers and rebating the level of scheme fees paid by issuers, producing a net benefit to card issuers. The effect of this would be that the intention of the IFR has been avoided – with retailers unable to avoid higher scheme fees and both absorbing these costs and passing them onto consumers.

29. This could breach the anti-avoidance provisions of the IFR by artificially replacing an income stream to card issuers. This could also be anti-competitive by establishing a floor below which MSCs cannot fall – as was deemed the case with interchange fees. The duopolistic position of Visa and Mastercard as card schemes means that retailers cannot avoid paying these increased scheme fees, which they would not have to do in a market with wider competition.

Communications

30. There is a need to ensure retailers can assess their business needs before effectively comparing the market. The PSR should produce easy and accessible guidance aimed at small merchants about how to do so. ACS would be happy to work with regulators on such guidance.

31. One further area this review should address is the perception amongst retailers that switching will simply be too much hassle or too complicated to achieve. Therefore, combined with the business

guidance mentioned, the PSR/FCA should consider a concerted communications campaign to encourage such activity, looking to the successful Current Account Switch Service as a best practice proxy.

Q4) How does COVID-19 impact on our review?

32. The pandemic has accelerated existing trends across the payments market, specifically a growth in card payments, reduction in cash payments and shift to online transactions as shopping preferences change. The acceleration of these trends only supports the need for this review.

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

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 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.

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WHO WE REPRESENT

INDEPENDENT RETAILERS

ACS represents almost 19,000 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 over 14,000 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 over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls 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

WHAT WE SELL

In 2020, the total value of sales in the convenience sector was £44.7bn.

The average spend in a typical convenience store transaction is £7.46.

WHO WE ARE

There are 46,955 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

OUR COLLEAGUES

The convenience sector provides flexible employment for around 412,000 people.

13% of independent/symbol stores employ family members only.

HOW WE OPERATE

22% of shop owners work more than 60 hours per week, while 24% take no holiday throughout the year.

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

OUR COMMUNITIES

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.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.

ECONOMIC CONTRIBUTION

Between August 2019 and May 2020, the convenience sector invested over £585m 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 1,200 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 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, 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