To:

European Commission – Executive Vice-President Margrethe Vestager and Commissioner Mairead McGuinness

HM Treasury – Economic Secretary to the Treasury Andrew Griffith MP

UK Payment Systems Regulator – Managing Director Chris Hemsley

Brussels and London, 1st June 2023

Subject: Joint industry letter calling for a reversal of the UK-EEA interchange fee hike to deliver savings for merchants and consumers and incentivise cross-border commerce and payments innovation.

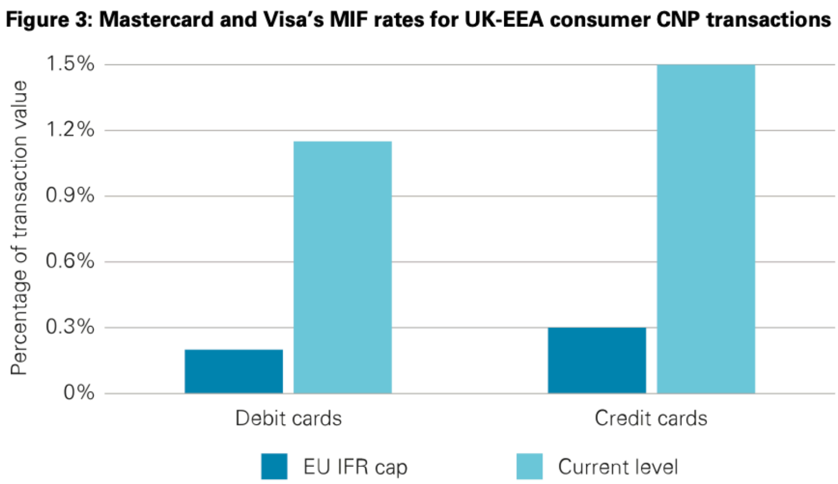
Dear Executive Vice-President Vestager, Commissioner McGuinness, Andrew Griffith MP, and Chris Hemsley

The undersigned, which represent technology companies and merchants from both the United Kingdom and European Union, are calling for a prompt reversal of the unjustified increase of more than 400% in cross-border interchange fees for online transactions between the UK and the EEA. Taking combined action to close this regulatory loophole should be an immediate priority following the renewed commitment between the regions to cooperate on financial services regulation.

Since the increase over a year ago, merchants in both regions have been paying more in interchange fees despite a decrease in digital commerce between the regions. This has resulted in higher prices for goods and services, aggravating inflation at a time when both regions are seeking to decrease its effects. This artificial hike undermines the development of seamless cross-border payments and the pursuit of the Single European Payments Area (SEPA), which the UK continues to be a part of following its exit from the EU. Overturning it will deliver immediate savings to merchants and consumers and incentivise cross-border commerce and payments innovation.

Interchange fees are paid on every Visa and Mastercard card transaction. They are effectively set by the card schemes and paid by card acquirers to issuing banks. This cost is ultimately passed down to merchants as part of their cost of acceptance. In 2021, both schemes announced they would raise interchange fees applicable to UK-EEA Card-Not-Present (CNP) transactions by approximately fivefold (Figure 1).

Figure 1: Mastercard and Visa's MIF rates for UK-EEA consumer CNP transactions[1]



[1] Payment Systems Regulator. MR22/2.4 Impact of the UK-EEA cross-border interchange fee increases working paper. Page 10

This increase represents an artificial wealth transfer from the merchants of one region, to the banks of the other. It was made possible by a regulatory gap left by the UK's exit from the European Union, which was quickly actioned by the card schemes.

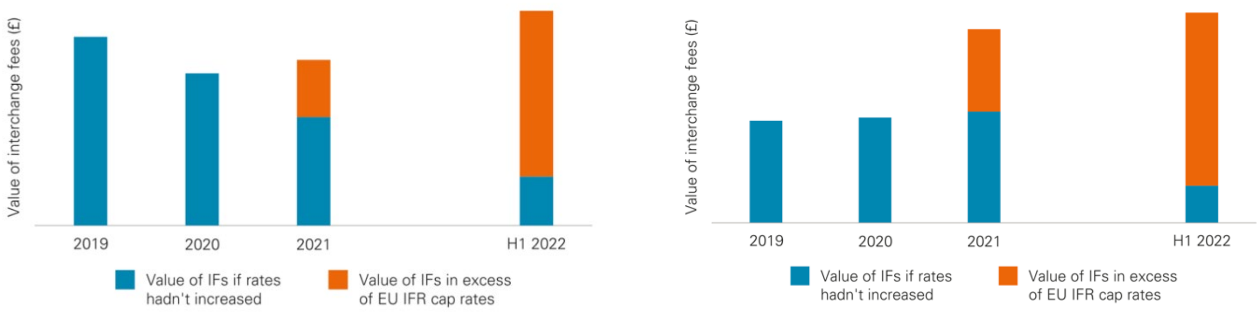
While Visa and Mastercard don't receive revenue from interchange fees, they have an incentive to raise them whenever possible. These fees are a price tool used by card schemes to incentivise issuers to process more transactions through their networks, so they can make more revenues from scheme and processing fees. Increasing interchange fees is a commercial imperative for the schemes as they compete for issuers, one that dissuades banks from alternative payment methods such as account-to-account and leads to higher costs of acceptance.

Competition between card schemes increases prices for merchants, a market failure which led the European Commission to introduce the 2015 Interchange Fee Regulation that previously capped all consumer interchange fees within the EEA, which included the UK. From a regulatory perspective, however, following the UK's exit from the EU, UK-EEA transactions are now no different from any other international transaction, paving the way for this opportunistic increase.

Yet the nature of these transactions has not materially changed, and they remain strongly distinct from other international card transactions. As demonstrated by the UK's sustained membership to the Single European Payments Area (SEPA), both regions continue to have strong economic, regulatory, and technological links.[2] The risk and cost of UK-EEA transactions are not materially different, let alone different enough to justify a fivefold increase. This alignment will be further strengthened by the recently signed Memorandum of Understanding between the UK and the EU establishing a framework for structured regulatory cooperation in the area of financial services.

The failure to act promptly to close this regulatory loophole has already cost UK and EEA merchants millions in unjustified card fees. The UK's Payment Systems Regulator found that despite fewer UK-EEA transactions since before the hike, merchants in both regions are paying more in total interchange fees to issuing banks (Figure 2).[3]

Figure 2: CNP IFs paid by UK merchants (left) and EEA merchants (right)[4]



Whilst both jurisdictions conduct their larger reviews on the increase in scheme and processing fees, we urge the Commission and Treasury to work together to protect the vision of the Single European Payments Area by reinstating the previous caps on UK-EEA transactions, in order to eliminate this expensive and unjustified impediment to trade and unlock further innovation in cross-border payments.

[2] https://www.europeanpaymentscouncil.eu/sites/default/files/kb/file/2020-11/EPC061-14%20v5.0%20Criteria%20for%20the%20extension%20of%20the%20SEPA%20geographical%20scope.pdf ; https://www.europeanpaymentscouncil.eu/sites/default/files/kb/file/2019-03/EPC065-19%20EPC%20Board%20Decision%20Paper%20on%20Brexit%20v1.0%20-%207%20March.pdf
[3] https://www.psr.org.uk/media/mvqc2e5s/psr-mr22-2-4-cross-border-interchange-fee-working-paper-dec-2022-updated.pdf
[4] [4] Payment Systems Regulator. MR22/2.4 Impact of the UK-EEA cross-border interchange fee increases working paper. Page 12 and 14.

We thank you for your attention and are at your disposal to discuss this further.

Yours sincerely,

European Union Signatories

United Kingdom Signatories