PSR Market Review into the supply of card-acquiring services: Draft Questionnaire

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UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

General comments

Given the very tight turnaround times UK Finance has been unable to curate a draft in time to circulate out amongst its members based on the tight timeframes between publication and the proposed submission date (one week).

The comments as are made, reflect observations that have been made at a superficial level and are more observations in the absence of any stipulated questions.

UK Finance respectfully reminds the PSR of its commitment as set out at paragraph(s) 1.7 & 1.9 in its *'Consultation on the approach to the merchant survey (MR18/1.4)'* that the future design and formulation of the merchant survey should be being seen, and as part, of an *'iterative and collaborative process'*.

- Greater transparency is still needed around how *IFF Research* was chosen with a proper understanding as to what level of expertise, as a market research agency, they possess in conducting similar surveys of financial service providers; and their understanding of the retail payments/acquiring sector in general.

- Similarly, we understand that *IFF Research* has already previously held in-depth interviews with around thirty merchants from differing industry sectors, who were asked to help inform the design of the questionnaire[1]. Why is this information not being disclosed along with the draft questionnaire itself? So as to provide some clearer indication of <u>who</u> those merchants are and <u>what</u> industry sectors are represented?

- Where the survey remains somewhat 'quiet' is if merchants <u>actually</u> understand the range of added services they receive and are provided for on their behalf (e.g. compliance, data security standards and/or regulatory obligations that are performed on their behalf); nor how well this is understood on a practical level and, if indeed it is considered as a competitive selling point?

- The survey[2] sets a general tone and assumption that the survey questions are fundamentally based around the traditional and conventional relationship between a retailer possessing a high-street presence and their acquirer. Which is very much the card present environment built around a retail proposition as a destination experience.

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[1] *Paragraph 3.8 – Marketing Review into the supply of card-acquiring services: Consultation on the approach to the merchant survey*

[2] *Based on the opening preamble at A1 at pg. 2 of the Draft Questionnaire.*

- More emphasis should be made, in the opening description of the survey, to actually convey the notion of acquiring as an important enabler in the 'offline' environment. References are given elsewhere[3] to '*e-commerce gateways*' but no explicit mention is actually provided for in the opening preamble which is essentially being used as a short descriptor as to what the attributes of '*card acquiring services*' are to do with.

- UK Finance is aware from its members that there are currently a range of specific trials and innovative product solutions that are being developed with their merchant customers and are currently in situ and are being actively tested.

- All of which derive from the services that individual acquirers are providing to their customer bases so as to help meet their merchants needs, and changes being witnessed as part of a wider societal demand; and as are being seen at an individual consumer behavioural level.

- Necessitating for a much more '*bespoke*', '*experiential*' and '*seamless*' shopping experience. Also reflective in the '*offline world*' which too covers a myriad of merchant types, and business models, that are needing to be catered for. Yet none of this is captured, or even asked in any of the questions being posed as to what value is being generated to their businesses in return and as a whole (e.g. *repeat purchases, increased conversion rates, enhanced loyalty/brand presence, positive customer reviews etc*).

- Demonstrating some of the practical limitations, which our members have expressed, of the survey (and questionnaire) taking too independent an approach, and why there should be a more active collaboration with industry stakeholders to properly capture where those innovations are taking place and some of the value being generated in turn, so as to have those views tested. And more crucially, showing how these collaborative opportunities are being facilitated, and encouraged, between the payment and merchant communities themselves.

- The simple fact is that the proposed questionnaire does not recognise the benefits that innovative payment acceptance solutions are bringing to both merchants, and the card payments eco-system as a whole[4].

- The survey seems to lay a great deal of emphasis around an exhaustive list of '*acquirers*', '*PSPs*', '*processors*' and '*mPoS providers*'; that is repeatedly used, and cross-referenced to, at many points during the survey itself[5].

- It would be interesting to know how that list has been consolidated and put together. And more crucially as to whether the complexities and nuances of the market are understood by the merchants themselves in being able to distinguish between who those companies are, and what services they provide?

- For example, the list comprises both *PayPal* and *iZettle* (a wholly owned *PayPal* subsidiary). Is this by design or accident? If the latter, why not include *Braintree* and as a natural accompaniment alongside *Stripe* and *Adyen*?

- A natural follow-on question to ask is if vendors were to be included (e.g. *Verifone/ Ingenico*) would the cohort of merchants being surveyed (i.e. small and medium sized UK merchants) naturally gravitate and perceive them as the entity responsible for their '*payment needs*', rather than the acquirer concerned?

- All are questions that are designed to help provide a measure as to how well those intricacies and nuances are understood; and whether these are '*factors*' that have any bearing, or, impact, on the commercial decisions as to why merchants make the decisions they do.

- We would stress the importance in certain instances that the general vernacular needs to be simplified and better explained given the intended audience. The concept of '*acquiring*' is something very much

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[3] *E3 on pg. 25 of the Draft Questionnaire*

[4] *An illustration of how diverse and dynamic the UK market is because of the maturity of the card payments market is seen by its reputation as a 'landing ground' for digital and mobile e-wallets that have been launched in the UK prior to being scaled elsewhere in Europe; and other targeted territories.*

[5] *A7 on pg. 6 of the Draft Questionnaire*

talked about in the card payments world but may not be something that is particularly well understood amongst retailers; especially where you have intermediaries/ ISO's purporting to offer 'acquiring' services.

- Indeed, trying to atomize those services still further (*e.g. PoS terminals, ecommerce gateways, EPOS systems, fraud prevention/data security, omni-channel, DCC services*) may straddle across a range of skill-sets, business areas and organisational structure of a retail business. Therefore, at a superficial level it seems very difficult to see how any chosen individual could properly convey; or, offer, an in-depth view that can holistically and authoritatively evaluate the overall value proposition, and/or services that their chosen acquirer provides.

- As well as also appreciating many of the 'hidden' extras that acquirers guarantee, often at their own commercial risk, in order to guard and ensure the integrity and operational resilience of the card payments network. Nor the impact that the merchant's credit or business risks has on an acquirers' willingness to provide services, or the conditions on which those services are provided for in turn.

- Section F *'Reviewing and Switching'* seems silent; nor, attempts to make any correlation to how the natural lifecycle and upgrade of an individual retailer's terminal estate may have a direct bearing, and might offer a natural juncture, as to when an internal review is actually undertaken by the merchant of its card acquiring services.

- Conversely greater precision is needed[6] to better distinguish and separate out what those online sales channels actually comprise in practice[7]. Which would align with how the questionnaire has attempted to separate out those full range of payment options as are listed at D1[8] and elsewhere.

- Finally, at D3[9] if cards are being listed as a standalone item to which there should be a degree of recognition, or at least an indication that this covers and includes those digital wallet providers/mobile contactless payment solutions that are now commonplace[10].

- Perhaps, further distinguishing this by including a separate category, that makes reference to 'other' standalone e-wallet solutions now operating in the UK market[11].

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[6] *B1 on pg.9 of the Draft Questionnaire*

[7] '*in-app'; mobile-web; PC based; Instant Messaging services; social media platforms*

[8] *D1 on pg. 14 of the Draft Questionnaire*

[9] *D3 on pg. 15 of the Draft Questionnaire*

[10] *Apple Pay, Google Pay, Samsung Pay*

[11] *YoYo Wallet/ Pay-by-Bank app which operate through separate payment rails (i.e ACH style solutions)*