

# Cross Border Card Fees

## February 2024

The Payments Systems Regulator (PSR) recently undertook a study of debit and credit card fees for UK-European Economic Area (EEA) cross border transactions. These fees are generally passed on and paid by UK retail businesses.

The PSR issued its Interim Report in December 2023<sup>1</sup> and UK Finance submitted its response to the PSR in February 2024<sup>2</sup>.

How this all works in practice is a key part of the card network system, albeit not one that is widely known about.

### The key players:

- **Issuers:** are the banks, finance firms and credit card companies that issue cards to consumers.
- **Merchant Acquirers:** are the companies at the other end who provide card acceptance facilities for businesses, obtaining authorisation and paying those businesses for card sales they make.
- **Card schemes:** Visa and Mastercard are the major payment schemes, enabling card issuers and merchant acquirers to transact with each other on behalf of their customers.

## Issuer fees – interchange

Every time a card is used to make a purchase, a small portion of the card sale value is paid to the issuer. This is done to reflect the costs they incur in issuing cards and the associated work they undertake, such as paying for fraud losses, preventing fraud and investing in new ways to pay such as contactless and smartphone digital wallets like Apple Pay.

This fee is known as “interchange”. It also pays for claims administration when consumers want to raise a chargeback (like a refund) against a business or make a claim under section 75 of the Consumer Credit Act.

### Multilateral Interchange

Issuers and acquirers can (but rarely do) agree bilateral interchange rates. Most commonly they use the backstop interchange fees set by Visa and Mastercard (called “multilateral” fees). The PSR’s Interim Report focussed on the multilateral interchange fee increases introduced by both Visa and Mastercard post Brexit, when European regulatory caps ceased to apply.

Card transactions which solely involve UK participants remain subject to interchange fee caps which were put into effect in the UK post

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<sup>1</sup> <https://www.psr.org.uk/publications/market-reviews/mr22-2-6-market-review-of-uk-eea-consumer-cross-border-interchange-fees-interim-report/>

<sup>2</sup> <https://www.ukfinance.org.uk/policy-and-guidance/consultation-responses/uk-finance-response-psr-cross-border-interchange-fees>

Brexit. These caps are 0.2% for debit cards and 0.3% for credit cards.

### **Interim Report - Summary of Findings**

In its interim report, the PSR set out the following headline views:

- the increases in interchange fees were seen as being too high and were not matched by increases in risks or costs
- they could not see evidence of costs or fraud differing between UK domestic and UK-EEA card transactions
- interchange is a cost passed on to merchants, but there is not enough competition to bring costs down

They also said a full study for UK merchant-EEA consumer card transactions should be undertaken, which would compare costs to businesses of other available payment types.

However, in the meantime they said Visa and Mastercard must reduce the interchange rates back to the pre-Brexit caps.

### **UK Finance Response**

Our response was quite critical of the approach and the conclusions drawn.

In summary, on behalf of card issuers, we made the following points:

- we did not support an interim cap, feeling the evidence provided did not justify such a course of action
- the conclusions the PSR reached were based on assumptions that the old caps reflected the true costs for cross border transactions. We think those assumptions need to be challenged because cross border fraud and costs are higher than UK domestic costs

- the costs to businesses are important, but the Interim Report focusses on those costs alone, too readily dismissing the value of cards to the UK economy as a whole. Reports issued by Mastercard<sup>3</sup> and VISA<sup>4</sup> have highlighted the value of cards to the UK economy, the consumer protections they provide and the speed, resilience and security of the network. These are of benefit to consumers and businesses.
- the approach should take account of Joe Garner's Future of Payments Report. This stated that cards work well and that the UK has one of the leading card propositions globally. It also notes that a sustainable commercial model is required for open banking.
- any future study on pricing needs to take into account costs to businesses, but also the other success factors embedded in the card proposition.

### **Why does this matter?**

The UK has one of the most developed and innovative card systems in the world. This has been enabled by a supportive regulatory regime, but also UK banks and acquirers investing in world class propositions that meet customers' needs, protect them and enable them to make payments easily and securely.

Huge investment is required and there are significant costs in running card operations.

The fee income that issuers receive through interchange not only supports free banking for consumers but also the ongoing cost of innovation in the system which makes it all work for all of us - consumers and businesses alike.

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<sup>3</sup> [https://www.mastercard.com/news/media/geyh3glf/ukc-032439\\_value-of-card-payments\\_3\\_lowres.pdf](https://www.mastercard.com/news/media/geyh3glf/ukc-032439_value-of-card-payments_3_lowres.pdf)

<sup>4</sup> <https://www.visa.co.uk/businesses/digital-commerce-in-action/payments.html>