Briefing Note: UK Finance Response to Cross-Border Interchange Fee Consultation

Executive Summary

UK Finance and its members disagree with claims that the UK cards market is not functioning well. Both the Future of Payments Report and HM Treasury's National Payments Vision (NPV) highlight the benefits and efficiency of the UK cards market. The claim that an interim cap on interchange fees is necessary is unsubstantiated and disproportionate. The proposed cap would have unintended negative consequences for the industry, financial sustainability, and innovation. It will also likely lead to EU issuers and policy makers claiming the UK is taking unilateral discriminatory action, which may lead to a response from the EU.

Key Concerns with the Interim Cap

- **Disproportionate Impact**: The market share of the relevant cross-border card transactions is less than 4%.
- **Prejudicial Decision-Making**: A lower interim cap risks setting a precedent that regulators may find difficult to reverse, even if a future study justifies higher rates.
- **Lack of Supporting Data**: The proposed cap rates are not based on robust econometric studies.
- **Inefficiency**: A two-stage approach would impose unnecessary costs and complexity on acquirers and issuers.

- **Fraud Considerations**: Cross-border fraud rates, particularly in the UK-EEA channel, are significantly higher than domestic fraud rates, justifying a differential in interchange fees.
- **Commercial Sustainability**: The regulatory approach should align with the NPV's emphasis on ensuring payments remain commercially viable.

Market Narrative

The narrative that the UK card market is failing is misleading. The industry has been under continuous regulatory scrutiny for nearly a decade. This protracted approach creates uncertainty, discourages investment, and hampers competition. Regulators should prioritise stability and long-term commercial sustainability over interventionist policies that introduce unnecessary complexity and costs.

Card Issuer Views

Banks and card companies are concerned about the implications of the proposed changes for investment and competition in the UK financial services sector. Key concerns include:

- **Economic Growth and Investment**: A stable and predictable interchange framework is essential for fostering investment and innovation in the UK payments sector.
- **International Relations**: A UK-imposed cap on EEA issuers could provoke a retaliatory response from the European Commission, introducing further uncertainty.
- **Consumer and Merchant Protections**: Interchange fees fund essential fraud protection, authentication, and chargeback services, ensuring consumer security and market confidence.
- **Inadequate Evidence Base**: The Final Report lacks a comprehensive study of issuer costs and risks, leading to potentially flawed regulatory outcomes.

Acquirer Perspective

UK card acquirers process billions of pounds of card transactions every day. Like the issuers they also oppose the interim cap and are particularly concerned about new regulatory burdens related to pricing transparency and scheme monitoring. They want the regulators to accelerate a proper pricing study rather than be distracted by an unnecessary cap. Key concerns include:

- **Operational Disruption**: A two-stage remedy approach imposes significant additional costs and complexities, diverting resources from innovation and service improvements.
- **Market Competitiveness**: Interchange is important but it is only one of a range of price factors and price itself is only one of a range of factors in merchant's minds when choosing which acquirer to work with. The UK acquiring market is highly competitive, with merchants choosing providers based on service quality, security, uptime, data insights, speed of settlement and fraud prevention capabilities, and of course price.
- **Unnecessary Scheme Involvement:** Proposals to involve card schemes in monitoring acquirer pricing are inappropriate and risk unintended market distortions.

Call for Evidence-Based Policy Making

- **Fraud Data Consideration**: UK Finance data shows that cross-border fraud rates justify higher interchange fees than domestic rates.
- **Methodology Consultation**: Any future review of interchange rates should be based on comprehensive, up-to-date, and statistically robust studies.
- **Alignment with National Payments Vision**: Regulatory decisions should reflect the government's broader priorities on commercial sustainability, investment, and competition. Payments do not exist in a vacuum – they are the essential facilitator to every day purchasing needs and help fuel economic growth. It is critical that payment firms have the income stream to invest, innovate, keep the system safe and trusted and continue to deliver positive outcomes to merchants and consumers alike.

Conclusion

UK Finance and its members urge regulators to reconsider the proposed interim cap and instead prioritise a comprehensive and fair review of interchange fees. A balanced approach is needed to support innovation, ensure commercial sustainability, and maintain the UK's leadership in payments infrastructure. A rushed, piecemeal intervention risks undermining the very market stability and consumer protections that interchange fees help to fund.

Regulators should work collaboratively with the industry to ensure any future changes are based on sound economic principles, market realities, and a long-term vision for the UK's payments landscape, which is necessary to deliver on the government's drive for growth.